The Economist
January 1st, 2011



The world this week

Dec 29th 2010 | from PRINT EDITION

America's Congress voted to allow gay members of the armed forces to serve openly by repealing **"don't ask, don't tell"**, a policy under which thousands of homosexual men and women have been discharged. It had looked as if the measure might not pass, but eight Republican senators eventually backed it. Barack Obama quickly signed the act into law, though it does not take immediate effect.

Also before Christmas, **Congress** agreed to Mr Obama's deal with Republicans that extends the Bush-era tax cuts for the wealthy in return for more stimulus spending. The Senate ratified a (much-delayed) nuclear-arms treaty with Russia. Legislation that would have put the children of illegal immigrants on the path to citizenship, the DREAM bill, failed to pass, and is unlikely to be reconsidered in the new Republican-controlled House of Representatives. See article

The first tranche of statistics to be released from America's **census** showed the population stood at 308.7m on April 1st 2010, a rise of 9.7% from 2000. Texas gained more people than any other state, up by 4.3m to 25.1m, fetching it four more congressional seats in the House. See article

Opponents of **Venezuela's** leftist president, Hugo Chavez, accused him of launching a coup against other branches of government, after the outgoing national assembly approved measures to allow him to rule by decree for 18 months, to tighten government control over universities, NGOs and the media, and to appoint new supreme-court justices. The measures came days before a new legislature with a large opposition minority is due to be sworn in. See article

In **Argentina** Jorge Videla, a former military dictator, was sentenced to life imprisonment for the murder of political prisoners following a coup in 1976. His trial came after an amnesty was set aside. Mr Videla complained that former leaders of the left-wing guerrillas whom the army fought are now in the government.

Bolivia's government increased the price of petrol and other fuel by more than 70%, prompting a strike by bus and lorry operators. The government said that the cost of subsidising fuel had risen from $80m in 2005, to $380m, and that cheap fuel was being smuggled to neighbouring countries.

Pressure mounted on Laurent Gbagbo of **Cote d'Ivoire** to admit defeat in an election run-off held in late November and cede the presidency to his rival, Alassane Ouattara. At least 170 people have been killed in the election's aftermath. The presidents of three west African countries (Benin, Cape Verde and Sierra Leone) flew to Abidjan, the Ivorian commercial capital, in a vain effort to persuade him to step down-or be removed by force.

The chief prosecutor of the International Criminal Court at The Hague asked it to summon six prominent **Kenyans** to face charges of inciting violence after the disputed election of 2007, when at least 1,200 people were killed. The six include Uhuru Kenyatta, the finance minister who is a son of Jomo Kenyatta, Kenya's founding president, and William Ruto, a leader of the powerful Kalenjin tribal group. See article

South Korea's President Lee Myung-bak made a surprise call for a resumption of denuclearisation talks with **North Korea**. The North has so far refrained from any armed response to the South's latest military exercises. See article

Indian officials warned that members of a Pakistani militant group which was blamed for an attack in **Mumbai** in 2008 that killed more than 160 people had again entered the financial capital. Security forces in India's biggest cities were put on heightened alert.

The **Japanese** government approved a draft budget for the 2011 fiscal year, which begins in April. It caps new bond issues at just below this year's expected level, but they will still outstrip tax revenues.

The People's Bank of China increased interest rates by one-quarter of a percentage point for the second time in just over two months, the latest in a series of actions taken by **China's** central bank to try to tame rising prices.

Mikhail Khodorkovsky, an imprisoned Russian oil tycoon, was found guilty of stealing oil in a second trial that many saw as a test of the Russian government's stated commitment to the rule of law. America and Germany criticised the verdict; the Russian foreign ministry said: "We expect everyone to mind his own business." See article

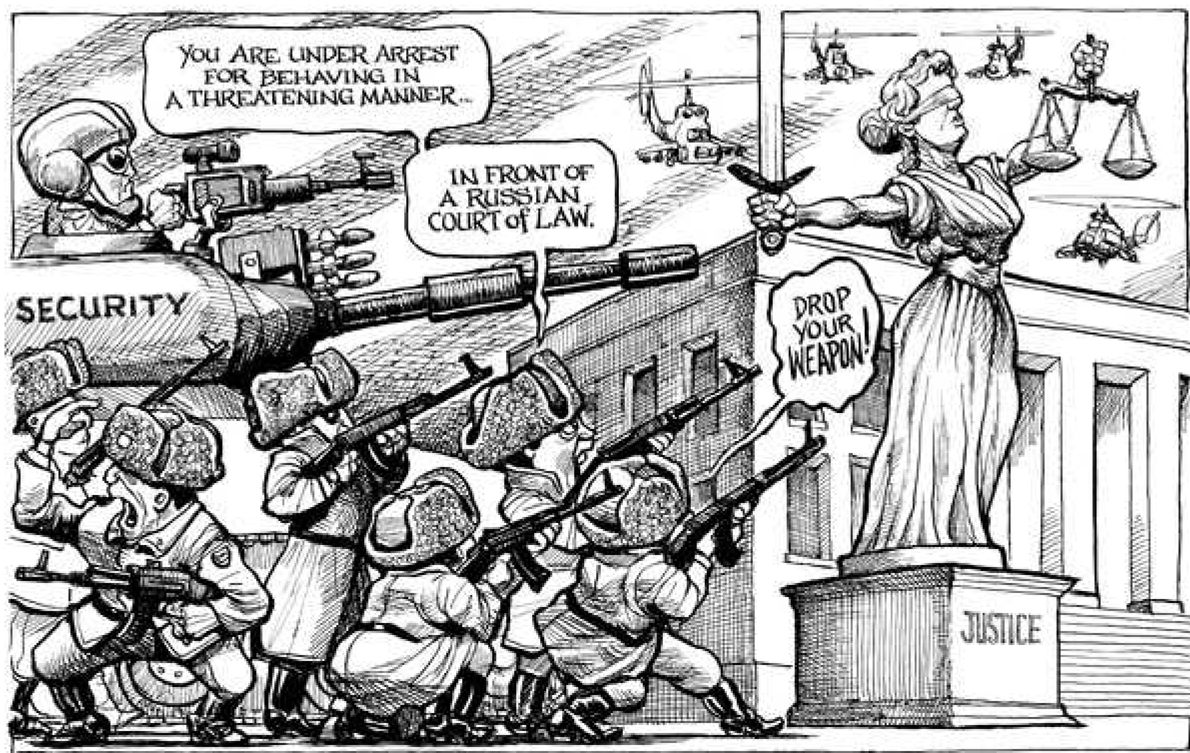
Violence erupted in Minsk after Alyaksandr Lukashenka, the president of **Belarus**, was declared to have won re-election with 80% of the vote. Hundreds of protesters, and seven of the nine opposition candidates, were arrested. Mr Lukashenka's main challenger was badly beaten by riot police. In a strongly worded newspaper article, four European foreign ministers said the European Union would not "stand indifferent to gross violation of [its] values." See article

Nine men were arrested on December 20th in three British cities and charged with conspiring to bomb several high-profile targets in **London** in the run-up to Christmas. The targets allegedly included the London Stock Exchange and the American embassy.

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The United States, Israel and the Arabs

Please, not again

Dec 29th 2010 | from PRINT EDITION

Without boldness from Barack Obama there is a real risk of war in the Middle East



NO WAR, no peace, is the usual state of affairs between Israel and its neighbours in the Middle East. But every time an attempt at Arab-Israeli peacemaking fails, as Barack Obama's did shortly before Christmas, the peace becomes a little more fragile and the danger of war increases. Sadly, there is reason to believe that unless remedial action is taken, 2011 might see the most destructive such war for many years.

One much-discussed way in which war might arise stems from the apparent desire of Iran to acquire nuclear weapons at any cost, and Israel's apparent desire to stop Iran at any cost. But fear of Iran's nuclear programme is only one of the fuses that could detonate an explosion at any moment. Another is the frantic arms race that has been under way since the inconclusive war in 2006 between Israel and Hizbullah, Iran's ally in Lebanon. Both sides have been intensively preparing for what each says will be a "decisive" second round.

Such a war would bear little resemblance to the previous clashes between Israel and its neighbours. For all their many horrors, the Lebanon war of 2006 and the Gaza war of 2009 were limited affairs. On the Israeli side, in particular, civilian casualties were light. Since 2006, however, Iran and Syria have provided Hizbullah with an arsenal of perhaps 50,000 missiles and rockets, many with ranges and payloads well beyond what Hizbullah had last time. This marks an extraordinary change in the balance of power. For the first time a radical non-state actor has the power to kill thousands of civilians in Israel's cities more or less at the press of a button.

In that event, says Israel, it will strike back with double force. A war of this sort could easily draw in Syria, and perhaps Iran. For the moment, deterrence keeps the peace. But a peace maintained by deterrence alone is a frail thing. The shipment to Hizbullah of a balance-tipping new weapon, a skirmish on the Lebanese or increasingly volatile Gaza border-any number of miscalculations could ignite a conflagration.

From peace process to war process

All of this should give new urgency to Arab-Israeli peacemaking. To start with, at least, peace will be incomplete: Iran, Hizbullah and sometimes Hamas say that they will never accept a Jewish state in the Middle East. But it is the unending Israeli occupation that gives these rejectionists their oxygen. Give the Palestinians a state on the West Bank and it will become very much harder for the rejectionists to justify going to war.

Easy enough to say. The question is whether peacemaking can succeed. After striving for almost two years to shepherd Israeli and Palestinian leaders into direct talks, only for this effort to collapse over the issue of settlements, Mr Obama is in danger of concluding like many presidents before him that Arab-Israeli diplomacy is a Sisyphean distraction. But giving up would be a tragic mistake, as bad for America and Israel as for the Palestinians. The instant the peace process ends, the war process begins, and wars in this energy-rich corner of the world usually suck in America, one way or another. Israel will suffer too if Mr Obama fails, because the Palestinians have shown time and again that they will not fall silent while their rights are denied. The longer Israel keeps them stateless under military occupation, the lonelier it becomes-and the more it undermines its own identity as a liberal democracy.

Don't mediate. Legislate

Instead of giving up, Mr Obama needs to change his angle of attack. America has clung too long to the dogma that direct talks between Israel and the Palestinians are the way forward. James Baker, a former secretary of state, once said that America could not want peace more than the local parties did. This is no longer true. The recent history proves that the extremists on each side are too strong for timid local leaders to make the necessary compromises alone. It is time for the world to agree on a settlement and impose it on the feuding parties.

The outlines of such an agreement have been clear since Bill Clinton set out his "parameters" after the failure of the Camp David summit a decade ago. The border between Israel and a new Palestine would follow the pre-1967 line, with adjustments to accommodate some of the bigger border-hugging Israeli settlements in the West Bank, and land-swaps to compensate the Palestinians for those adjustments. But there is also much difficult detail to be filled in: how to make Jerusalem into a shared capital, settle the fate of the refugees and ensure that the West Bank will not become, as Gaza did, an advance base for war against Israel after Israeli forces withdraw.

Mr Clinton unveiled his blueprint at the end of a negotiation that had failed. Mr Obama should set out his own map and make this a new starting point. He should gather international support for it, either through the United Nations or by means of an international conference of the kind the first President Bush held in Madrid in 1991. But instead of leaving the parties to talk on their own after the conference ends, as Mr Bush did after Madrid, America must ride herd, providing reassurance and exerting pressure on both sides as required.

The pressure part of this equation is crucial. In his first round of peacemaking, Mr Obama picked a fight with Israel over settlements and then backed down, thereby making America look weak in a region where too many people already believe that its power is waning (see article). This is a misperception the president needs to correct. For all its economic worries at home and military woes in Iraq and Afghanistan, America is far from weak in the Levant, where both Israel and the nascent Palestine in the West Bank continue to depend on it in countless vital ways.

The Palestinians have flirted lately with the idea of bypassing America and taking their cause directly to the UN. Going to the UN is well and good. But the fact remains that without the sort of tough love that America alone can bestow, Israel will probably never be able to overcome its settler movement and make the deal that could win it acceptance in the Arab world. Mr Obama has shown in battles as different as health reform and the New START nuclear treaty with Russia that he has the quality of persistence. He should persist in Palestine, too.

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Elections in Belarus

A nasty surprise in Belarus

Dec 29th 2010 | from PRINT EDITION

A rigged vote and an orgy of repressive violence demand a tough response from the West



FAKED votes, cracked skulls, a jailed opposition, beaten-up protesters and relations with Europe in tatters. This, in short, is the result of December's presidential election in Belarus, in which Alyaksandr Lukashenka, a Soviet thug, declared himself the winner with an improbable 80% of the poll and returned to govern for a fourth time.

European leaders, who had promised Mr Lukashenka cash as a reward for decent elections, seemed caught by surprise. They should not have been. Some have now condemned Mr Lukashenka's actions. For the sake of the region, the Europeans need to go much further.

Opposition leaders in Belarus were under no illusions before the vote. But they saw a chance to appeal directly to the people and to demand real elections. By contrast, Mr Lukashenka saw a chance to cleanse Belarus of any opposition.

The latest crackdown has been brutish even by Mr Lukashenka's dismal standards. After what looked like a staged provocation, riot police started indiscriminately pummelling an opposition crowd of 30,000. Activists were hunted down by the KGB in their homes in the middle of the night. Andrei Sannikov, a former diplomat, and his wife, Irina Khalip, a journalist for Russia's *Novaya Gazeta*, are both in jail facing long sentences. Their three-year-old son has been threatened with state custody. Vladimir Neklyaev, a poet and candidate, was taken to jail from a hospital bed after being assaulted.

Mr Lukashenka has been protected by his ability to play Russia off against the West. Although Russia lost patience with him last summer-and even encouraged the Belarus opposition-the risk of another colour revolution ultimately outweighed the inconvenience of dealing with him. He got the Kremlin's support in a deal shortly before the elections-and the violence is only likely to bind him closer. Mr Lukashenka is again a pariah in the West and more dependent on Moscow than ever: both Dmitry Medvedev, Russia's president, and Patriarch Kirill, the head of Russian Orthodox Church, made a show of congratulating Mr Lukashenka on his victory.

So far, the EU and America have refused to recognise the legitimacy of the elections and are demanding the release of prisoners-to little avail. Yet the West erred by allowing itself to be duped by Mr Lukashenka and his anti-Russian rhetoric. In future Mr Lukashenka's quarrels with Russia should not make him any more acceptable to the West.

The West now needs to speak with one voice and reimpose a suspended visa ban on Mr Lukashenka and his officials. It should target the foreign bank accounts and property of Belarusian functionaries. And it should resist the temptation to reward Mr Lukashenka for releasing prisoners. He is a dealer who likes to trade hostages for money. Paying a ransom would only encourage more hostage-taking.

Bel-wether

Not only Belarus is at stake. The country is a testing-ground for other former Soviet states. Many of the repressive methods tried out in Belarus are later taken up in Russia by Vladimir Putin's regime. Whereas the colour revolutions represented the spread of Western values eastward, the violence in Belarus represents the advance of Russia's political model westward.

A special worry is neighbouring Ukraine. Under Viktor Yanukovich, a pivotal country of 48m people is sliding towards Russia's political culture. The recent arrest of Yury Lutsenko, a former Ukrainian interior minister, was worryingly Belarusian. A robust response from the EU to Belarus is not just the right thing to do, it would also send a signal to Ukraine's elite that using violence against political opponents carries costs.

Network neutrality

A tangled web

Dec 29th 2010 | from PRINT EDITION

America's new internet rules are mostly sensible-but the country's real web problem is far more basic



FOR a subject that arouses such strong passions, "network neutrality" is fiendishly difficult to pin down. Ask five geeks and you may well be given six definitions of it. The basic concept sounds simple enough: that the internet's pipes should show no favours and blindly deliver packets of data from one place to another regardless of their origin, destination or contents. But the devil is in the detail. What happens for instance if some people want to pay for their data to go faster, or if others hog all the bandwidth? And it does not help that both political proponents and opponents of this undefinable thing claim they are fighting to defend free speech and innovation.

This debate is loudest in America, uncoincidentally the developed market with the least competitive market in internet access. Democrats, who are in favour of net-neutrality rules, insist regulation is needed to prevent network operators discriminating in favour of their own services. A cable-TV firm that sells both broadband internet access and television services over its cables might, for example, try to block internet-based video that competes with its own television packages. Republicans, meanwhile, worry that net neutrality will be used to justify a takeover of the internet by government bureaucrats, stifling innovation. (That the internet's origins lie in a government-funded project is quietly passed over.)

From a consumer's perspective, both sides are half right. Without some neutrality rules it is unclear how a network operator can be stopped from blocking particular sites or services. But overly prescriptive rules that fossilise the internet in its current form could indeed hamper innovation. Firms that come up with faster and fancier services should be able to charge a premium, just as delivery companies and airlines do.

So the fact that zealots on both sides are moaning about the new regime finally passed by America's telecoms regulator on December 21st is on the whole a good sign. Two of the three new rules from the Federal Communications Commission (FCC) are relatively straightforward. One prevents network operators from blocking lawful traffic, subject to "reasonable network management" (an exception needed to ensure that spam or denial-of-service attacks can be stopped). The second requires network operators to be open about their network-management policies, so consumers and companies can see what might be blocked, and why.

The difficulty comes with the FCC's third rule, prohibiting "unreasonable discrimination". Discrimination, in this context, means letting some packets of data travel faster than others. To net-neutrality purists, any kind of discrimination is unacceptable: by allowing the "reasonable" sort the FCC has, in their view, left open a vast loophole. That seems overly conservative, to this newspaper. Why on earth shouldn't a company be able to charge more for, say, faster delivery of video, or special broadband links that ensure snappy connections for video-gamers? Such "fast-tracking" is already widespread: if you pay a bit more, you can get a speedier connection or even a special "content delivery network" to hurry up the delivery of your data (as many large firms do). In some countries you can get connections optimised for gaming.

Sadly, there are two caveats and a huge omission. The first caveat is that the law is not clear. Despite allowing reasonable discrimination, the FCC says that "pay for priority" would "raise significant cause for concern". In other words the FCC has not explicitly banned fast-tracking, but it does not seem disposed to allow it. So fast-tracking's fate will be decided by the courts, to the annoyance of everyone except lawyers.

The other caveat with the FCC's new rules is their leniency towards mobile operators, who will be allowed to block some kinds of traffic. Wireless firms point out, rightly, that their bandwidth is less abundant than the fixed-line sort and especially vulnerable to data hogs who use too much capacity. But the best way to deal with this, on both fixed and mobile networks, is to offer a monthly data limit and charge by the megabyte beyond it. Usage-based pricing, not a different regulatory regime, is all that is needed. Again, other countries do this.

The fundamental problem

These details are important, but the noise about them only makes the omission more startling: the failure in America to tackle the underlying lack of competition in the provision of internet access. In other rich countries it would not matter if some operators blocked some sites: consumers could switch to a rival provider. That is because the big telecoms firms with wires into people's homes have to offer access to their networks on a wholesale basis, ensuring vigorous competition between dozens of providers, with lower prices and faster connections than are available in America. Getting America's phone and cable companies to open up their networks to others would be a lot harder for politicians than prattling on about neutrality; but it would do far more to open up the net.

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The American economy

Proceed with caution

Dec 29th 2010 | from PRINT EDITION

America's economy looks set for a good year. But investors should beware the treacherous path beyond 2011



THE American stockmarket enters 2011 in a jolly mood. In the past four months it has leapt by 20%, to heights last enjoyed when Lehman Brothers was a going concern. Investors are likely to cheer a second consecutive year of double-digit returns.

This partly reflects growth elsewhere: American companies make a third of their profits outside the United States. But the most recent spurt has been driven by a sharp change in the outlook at home. At the end of the summer Wall Street worried that growth was grinding to a halt. The Federal Reserve was running out of monetary ammunition. The incremental contribution of Barack Obama's $814 billion stimulus had faded and a gridlocked Congress seemed incapable of supplying new support. Big business was rattled by Europe's sovereign-debt crisis. Wall Street's bears sniffed deflation.

What has changed? In part it is simply a case of the underlying American economy turning out to be stronger than pessimists imagined: consumer spending, business investment and job creation are all up lately. But policymakers have also done their bit. In November the Fed began a second round of "quantitative easing"-buying bonds with newly created money in order to push down long-term interest rates and stimulate lending. And in December Mr Obama and the Republicans agreed to extend George Bush's tax cuts until the end of 2012 and to pump a further $300 billion into the economy in 2011 through a payroll-tax cut and other measures. The deal should spur growth; it also got rid of the (until then very real) danger of inadvertent fiscal tightening tipping the economy back into recession. That is the main reason why bond yields have risen with share prices. Bolder investors are less willing to accept rock-bottom yields in return for safety.

This bipartisanship will bankrupt us

Put these things together, and the American economy could grow by nearly 4% in 2011: so Wall Street is right to be cheery on that score. But share prices are meant to be based on more than just the next 12 months' earnings, and the medium term is as treacherous as ever; perhaps more so.

Start by noting that the recovery is subdued by historical standards. This is not because of high interest rates or frail business confidence, the sorts of things that a well-honed stimulus might quickly cure. Rather, households and banks are working off the excess debts of a reckless decade. Monetary and fiscal easing should make this less painful, but this deleveraging still has years to go. There will be more weak patches like the summer of 2010, when investors' joy may quickly turn to gloom.

Next, the new tax deal has made America's long-term fiscal problems even more intractable. The payroll-tax cut may well not expire in a year's time: it will be portrayed as a tax increase when unemployment is still high. But the real problem is the Bush tax cuts. Optimists hope that their expiry in 2012 will allow a grand bargain to be agreed before then: the lower tax rates could be kept in exchange for a plan to stabilise the federal debt as a share of GDP by closing loopholes and cutting spending. A good idea, but both Mr Obama and the Republicans are hellbent on fighting the next presidential election over the tax cuts (with Mr Obama keen to let the cuts for the richest Americans lapse). Neither side has much incentive to fix the problem before 2012 as part of a longer-term deal.

Much worse is what the deal says about the nature of bipartisanship in today's Washington. The Republicans and Democrats merely agreed to each other's huge giveaways. Real bipartisan budgeting must involve far more painful things -increases in taxes and cuts in entitlements. The politics of cutting health care and pensions is getting worse. In 2011 the first baby-boomers retire and the number of elderly voters will only grow (see article). The Republicans claim they are ready to reform Social Security and the tax system. A wise Mr Obama would call their bluff by presenting a plan for both in his budget. But don't bet on it. The longer both sides drag their feet, the more likely a revolt in the bond market and a skint Treasury squeezing American businesses for cash.

Wall Street may be right about the economy in 2011. But the American government's inability to sort out its finances in a credible way should unsettle investors everywhere.

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India and Kashmir

K is for complacency

India risks storing up misery over Kashmir. It should grab a chance to do something more positive



MENTION Kashmir in polite Delhi society and noses wrinkle. Indians in the capital much prefer to talk of the economic boom, of India's flourishing trade and its growing international heft. Old problems in the disputed, Muslim-majority territory in the mountainous north are waved off as a remote affair. They are not for foreigners to poke their noses into. And don't begin to suggest that the world's biggest democracy faces a growing problem in Kashmir, or that repressed Kashmiris have anything in common with the Palestinians or Tibetans.

Yet, in recent months, stone-pelting youths have launched their own *intifada*. Separatists have called for *hartals*, or self-imposed curfews, across the territory. And ill-trained Indian police have fired tear-gas and bullets with little care, killing over 110 people, mostly young and armed, if at all, only with crude projectiles. Deaths have spread bitterness, as have widespread reports of rape, torture and violent intimidation by Indian police (see article). The chances are high that the miserable cycle of protests, deaths and funerals will resume in 2011.

India's leaders are at least a bit embarrassed. They have promised better-trained police and sent three independent (if junior) interlocutors to hear Kashmiri grievances. The team is due to report within days. Yet the authorities are also harrying nationalist leaders in the territory. Separatists are often jailed or kept under house arrest. Demonstrations are usually banned. Western leaders, keen to keep India "onside" against China and greedy for its markets, have kept disgracefully quiet about human-rights abuses. On his visit in November Barack Obama uttered the K-word in public only when he was pressed by a questioner to do so.

It is not all bad. One silver lining is that Pakistan, which once devoted much malign energy to supporting an insurgency in Kashmir, is now preoccupied with its own fragility. Kashmiris, however troubled, are unlikely soon to return to the widespread armed militancy that used to claim thousands of lives a year. But India's crushing of more moderate Kashmiri leaders is fostering other problems. The young stone-pelters are turning radical and religious. A mostly nationalistic dispute risks becoming ever more theological in much the same way as that between Israelis and Palestinians did.

A less complacent Indian government would work far harder to stop this slide. There is an immediate chance to seize the initiative while a winter freeze holds the troubled valley in its grip and before the pelting and shooting restart. It could signal that Kashmiris' grievances will be taken seriously, for example by acting on the interlocutors' report when it is released in January. Reducing the heavy presence of non-Kashmiris in uniform would ease tensions too. Cars cannot drive around Srinagar without manoeuvring past army roadblocks, snipers in pillboxes, lines of soldiers on the roadsides and military convoys. The security forces should be stopped from making arbitrary arrests. They should also allow nationalist political leaders to move and speak freely. That's what democracies do.

Look to the horizon

In the longer term Indian leaders need to break their unhelpful silence on Kashmir's prospects. The government will never allow the state to secede, let alone to join Pakistan. But India could agree to grant Kashmir greater political autonomy. It could concede that the army's role in the territory will gradually diminish to one of mainly securing the line-of-control that divides it from Pakistani-run Kashmir. That would encourage the many Kashmiris who have taken part in Indian-run elections and who often accept in private that co-operation with India's authorities would bring gains.

Perhaps India's ruling Congress party, battered by corruption scandals, may not feel ready to brave Kashmir, especially if the opposition, the Hindu-dominated BJP, is hostile. Yet seeking reconciliation would be a sign not of weakness but of India's growing confidence. Encouraging Kashmir's moderate leaders is in the interests of all Indians-and of the West too.

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Letters

On Japan, private equity, nuclear power, vertical farming, morals, Social Security, mating behaviour, the euro

Dec 29th 2010 | from PRINT EDITION

Letters are welcomed via e-mail to letters@economist.com

Let children vote

SIR - You talked about the significance of the elderly voting-age population in Japan as a factor in determining government transfers, such as pensions and health care (special report on Japan, November 20th). The median age of voters in Japan will reach 65 within the next 15 years. We should seriously consider giving children a vote and having their parents use it on their behalf. Parents with children under 18 would then control 37% of the vote.

Why should we give children a right to vote? Because intergenerational income distribution became a contentious public-policy issue with the establishment of public-pension systems. It may seem outrageous to extend the vote to children, but the extension of the franchise to women was also opposed. That historic change was achieved through the democratic process and resulted in a dilution of the voting power of the male-only electorate. Greying populations require such a fundamental democratic change.

Reiko Aoki
Director Centre for Intergenerational Studies
Hitotsubashi University
Tokyo

* SIR - Your special report decried Japan's ageing population and shrinking workforce, though this misconstrues the problem. A country with a shrinking population has diminished needs for construction, agriculture, and raw materials. A country with an ageing population has a diminished need for a criminal justice system. A country with a shrinking workforce has a diminished need for a commuter transport system. A country with fewer school-age children has a diminished need for schools, teachers and an education industry. Above all, economic growth, the mantra that you invoke time after time, is of negligible importance in such a country, especially if it is already rich.

What Japan will need in the coming decades is a way of reorganising its society and shifting the workers it has away from jobs that are unneeded and into health care, home maintenance and other jobs in the service sector. India's economy will eventually surpass Japan's, as will Brazil's, Indonesia's, and others; they have larger populations, and since many of their people are poor, more room and more incentive to grow. India's success is not Japan's failure.

Earth cannot hold an ever-increasing number of people. As population growth slows around the globe, populations will age everywhere.

David Book
Monterey, California

Hold the obituary

SIR - With apologies to Mark Twain, to say that Europe is "The lost continent" (December 11th) in terms of private equity is an exaggeration. Your article drew together a compendium of facts to support an erroneous notion that European private equity is on its last legs. Buy-out activity has indeed diminished. Yet with leverage all but disappearing, firms have worked hard to reposition themselves in the post-crisis world, which is no bad thing. It is also a misconception to see secondary deals as some form of desperate investment strategy. There are certainly many secondary buy-outs in Europe, but this brings positive benefits because private-equity funds are welcome shareholders and help management to develop companies. Our discussions with international investors tell us that they still have an appetite for quality opportunities that arise from those European private-equity firms that adopt a disciplined and long-term investment philosophy.

Twain suffered the ignominy of having to explain away his death. I trust this won't be the case for European private equity.

Dominique Senequier
Chief executive
AXA Private Equity
Paris

The nuclear future

SIR - Coming just before the conclusion of the UN climate-change summit in Cancun, your article on mini nuclear reactors could not have been more timely ("Thinking small", December 11th). As you pointed out, Russia has developed small floating reactors to deliver energy to the Arctic regions, primarily to overcome the problem of building power plants and grids on unstable permafrost. The simplicity and scalability of small reactors makes them an ideal energy source where future demand is uncertain and investment in larger plants and grids is simply not viable.

But you passed over the one big area where small reactors can perhaps make the greatest contribution: the developing world. Harnessing this technology can promote clean and affordable economic and social development in countries that are held back by energy shortages. Indeed, small reactors should figure prominently when it comes to implementing Cancun's pledges on technology transfer to developing economies.

For nuclear power to live up to this promise, the international community must be ready to share technology and expertise to help reduce costs and ensure the highest safety standards. So as well as representing a significant step in "resetting" American-Russian relations, the recent approval by the American Congress of an agreement with Russia opens the way for unprecedented commercial co-operation on new reactor designs that are small, proliferation-resistant and more cost-effective.

Such an increase in international co-operation coupled with continuing improvements in technology will allow nuclear energy at last to live up to the hopes of its pioneers from more than 50 years ago.

Oleg Deripaska
Chief executive
Basic Element
Moscow

City crops

* SIR - You investigated the viability of vertical farming in urban areas ("Does it really stack up?", December 11th) and showed that crops need lots of artificial light during the winter months in northern cities. Dutch research has shown that growing vegetables in the Netherlands uses up to 17 times as much energy as growing the same vegetables in Spain and transporting them to the market in northern Europe.

Better then to grow the vegetables where the sunshine is plentiful and land is cheap, rather than where it is dark and land costs are at a premium. The Seawater Greenhouse is designed for coastal arid climates, such as northern Africa, and uses sunshine to convert seawater to fresh water. The process also cools and humidifies the greenhouse to create a perfect growing environment, all using land which is otherwise economically unproductive. The first commercial installation is just now producing its first harvest in Port Augusta, South Australia.

Thomas Bjelkeman-Pettersson
Stockholm

Upstanding individuals

SIR - The link between material circumstance and lawless behaviour is not a new topic, but at least Bagehot attempted to shine a light on the British government's research efforts (December 11th). However, the conclusion that the government needs somehow to forcefully "prod" poorer parents deeply disturbed me for one reason: why is moral character only worth examining in poor families? This implies that rich parents automatically instil moral fortitude. After a year of unethical bankers, swindling MPs and the defacement of war memorials by students, I am starting to think that the government is looking in the wrong place for Britain's "character".

Joanne Harrower
Brussels

Social Security taxes

* SIR - A letter to the editor stated that "because of the upper limit on payroll taxes, Social Security is regressive and redistributes wealth to the rich" (December 4th). Nothing could be further from the truth.

The applicable individual payroll tax rate is currently a flat 6.2% on earnings up to the taxable wage base, currently $106,800. Thus, everyone contributes the same percentage of their taxable earnings.

However, the benefit formula, which is applied only to taxable earnings, is heavily progressive. For example, an employee not retiring early with taxable earnings at the cost-of-living adjusted rate ending at $10,000, $30,000 or $106,800 upon retirement will receive a benefit that replaces approximately 84%, 50% or 28% of their final taxable earnings level, respectively.

Clearly, wealth redistribution occurs, but by no means in favour of the rich.

Carl Frammolino
Fellow
Society of Actuaries
Austin, Texas

Sex and the pretty

SIR - By having volunteers pair up pictures of people's faces ("Hunkier than thou", December 11th) scientists trying to understand the causes of human mate selection are not doing much better than internet dating. Facial features are poor indicators to the quality of a mate. Sexuality, authority, self-confidence, inner strength and good physical health are far more reliably conveyed by the blend of poise, deportment, body language and manner of speaking.

That combination can confer a kind of subtle aura which is sometimes exemplified when a man or woman unobtrusively entering a room mysteriously attracts attention, or spontaneously takes charge of an emergency situation without being challenged. It does not necessarily help to be "hunky" or gorgeous or loaded with degrees. Women are attracted to power and leadership. Men are often misled by female sexuality, but this dangerous quality has little to do with a pretty face or jaw-dropping contours.

Tim Anderson
Cape Town

SIR - After reading how women in disease-free countries prefer more effeminate men ("Face off", March 20th), I dropped the protein powder and gym sessions and instead became more sensitive (Letters, April 10th). Now you run an article asserting that a woman's sexual preference for manliness may correlate to a country's ranking by Gini coefficients. What should I do?

Do I fly my now bony and unmanly self to Sweden, which has the lowest income inequality, to find a mate? That would put a dent in my wallet in addition to the emotional pain I already experience from looking at my weak frame in the mirror each day. I guess I could just exercise again.

Danny Lowinger
Brunswick, Maine

In need of fixing

SIR - You managed to find a picture of the European Central Bank's neon sculpture in Frankfurt of the euro with one of its bright yellow stars broken (The world this year, December 18th). This is a rare photo opportunity. Usually the Germans are quick to repair it.

Hans Dubois
Dublin

* Letter appears online only

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America and the Middle East

Great sacrifices, small rewards

Dec 29th 2010 | *CAIRO* | from PRINT EDITION

Has America's obsession with this region been worth it?



THE Middle East holds a giant chunk of the world's energy reserves, and also generates its biggest political headaches. Small wonder that the United States has long had an outsize interest in the place. Since September 11th 2001, and the rise of radical Islam as the sole violent challenge to an American-shaped international order, America's focus on the region between the Nile and the Indus rivers has been obsessive. Yet all the attention would seem to have been in vain. America's influence has dwindled everywhere with the financial crisis and the rise of emerging powers. But it seems to be withering faster in the Middle East than anywhere else.

Two decades ago, when America marshalled a daunting force to toss Saddam Hussein out of Kuwait, it stood unchallenged in the region. Kings and presidents-for-life vied for American favour. Countries such as Iran that would not, or Somalia that could not, were ignored. When America summoned leaders to Madrid in 1991 to sort out the most intractable Middle Eastern mess, the Arab-Israeli struggle, some grumbled, but all fell into line.

Most of them still come when America beckons, but ten years ago things began to slip. Despite the commitment of successive American presidents, and despite near-consensus worldwide on the outlines of an agreement, Arab-Israeli peace has kept receding out of reach. The invasions of Afghanistan in 2001 and Iraq in 2003 vastly expanded America's bootprint in the region. But the smoke of those Pyrrhic triumphs cleared to reveal America in trouble. The global "war on terror" declared by George Bush displaced al-Qaeda and prevented several serious attacks. But those successes drained America's treasury, alienated its friends and emboldened its enemies. Recalcitrant, revolutionary Iran found itself magically enhanced.

America's Middle East policy now looks thwarted at every turn. Its closest ally, Israel, which has received more than $27 billion in American military aid over the past decade, has rebuffed pleas, backed by offers of yet more aid and diplomatic support, to pause in its building of illegal Jewish settlements in occupied territory. Another Middle Eastern friend and aid recipient, Egypt, has cocked a snook at American requests to set an example of democratic reform. It rejected a call by Barack Obama to let international observers monitor a recent, garishly fraudulent election. Iraq, where America has expended so much blood and treasure, took nine months to form a shaky government that looks more to Iran's liking than America's. And Iran seems undiminished in its determination to pursue its nuclear ambitions, no matter how much America and its allies rattle sabres and pile on sanctions.

Even the popularity of Mr Obama, which surged among Arabs and Muslims after his inauguration, has fallen back. Shibley Telhami, of the University of Maryland who has long experience in polling regional opinion, notes two trends. Arabs used to distinguish between a dislike for American policies and a liking for Americans as people; now they tend to dismiss both. And when asked which leaders they admire, Arabs continue to cheer those who stand up to America and to its ally Israel. This year Turkey's Recep Tayyip Erdogan tops the list, followed by Hugo Chavez, Venezuela's *yanqui*-baiter-in-chief.

Several reasons lie behind America's loss of potency. Some reflect changes within the Middle East. Allies such as Israel and Turkey long followed American wishes reflexively because they felt imperilled and dependent on American largesse. They have now grown too strong for that. With its thriving economy, Israel feels able to take a more independent line. Turkey has also become an economic power and its government, unlike the dictatorships elsewhere in the Middle East, is now democratic. And although the region's two strongest states still pursue policies that dovetail with America's, they have grown unhelpfully estranged from each other.

Other allies that once augmented American power by proxy have grown too weak to help. Oil-rich Saudi Arabia packs financial clout, but its ruling princes are ageing and absorbed by a struggle for succession. Egypt, the most populous and diplomatically agile Arab country, is also run by old men. Once they could rally Arabs behind American objectives, but the Egyptians have struggled lately even to get the two main Palestinian factions, Hamas and Fatah, to talk to each other. The Mubaraks and the Al Sauds have little impact any more on the Arab Street: "resistance" and defiance carry more appeal. "The sense of how weak we are is a factor of how weak our partners are," says Scott Carpenter, a Bush-administration official now with the Washington Institute for Near East Policy.

Fingers burned

America's own mistakes, tactical and strategic, have speeded its decline. The failure to find banned weapons in Saddam's Iraq and the torture at Guantanamo and Abu Ghraib have tainted America's moral authority. The application of American firepower has, ironically, also raised the bar for defying America's will. Iran and its allies, including Syria, Hamas and Hizbullah, the Lebanese Shia party-cum-militia, feel they can call America's bluff because they think that, having burned its fingers in Iraq and Afghanistan, it will no longer back harsh words with invasions.

You can see how they might reach that judgment. Aside from nearly 6,000 American fatalities in Iraq and Afghanistan, the expenditure, so far, of more than $1.1 trillion on military operations in those theatres has sapped the will for more campaigns. The cost of keeping a single soldier on the ground now exceeds $500,000 a year-a strong reason for a poorer America to reduce its presence in the region.

The incoming, Tea-Party-infused Congress is likely to make things harder. Whereas rivalry between Democrats and Republicans used to end at the water's edge, it now extends into foreign policy. Despite the ratification of the New START treaty at the end of 2010, Congress is beset by partisanship, even in petty matters. Solely because of partisan obstruction, Mr Obama has yet to secure approval for his choice of two career diplomats as ambassadors to Turkey and Syria.

America's pro-Israel lobby shows no sign of losing strength. Jonathan Broder, foreign-affairs editor of the *Congressional Quarterly*, discerns an effort by Republicans to woo Jewish voters, long more supportive of Democrats, by outbidding the

administration over Israel. Eric Cantor, the incoming House majority leader, has proposed moving the $3 billion annual military grant to Israel from the foreign-aid budget to the Pentagon, in effect shielding it from spending cuts. "Not only would this remove a lever for American pressure," warns Mr Broder, "it would make us silent accomplices in the settlement process."

However, other Washington observers lament that the lessons of failure in the Middle East have yet to be learned. "Obama said that we had not only to change the war in Iraq, but to change the mindset that led to the war, and this has not happened," says Brian Katulis of the Centre for American Progress, a left-leaning Washington think-tank. Despite a view that soft power can be as potent as military muscle, he says, this has not translated into policy. Marc Lynch, of George Washington University, agrees: "The lesson we seem to have learned from Iraq is not, 'Disaster, don't do it again', but rather, 'Now we know how to do counterinsurgency.'"

Picking up the pieces

America's woes have led some to accuse Mr Obama's team of managing the Middle East even more ineptly than Mr Bush's did. The American right and many Israelis think he is too pro-Arab. Arabs, Europeans and critics from the left charge him with being timid and oversensitive to domestic politics; with lacking strategic vision; with being locked into black-and-white views that overlook useful ambiguities; and with substituting lofty talk for firm action.

This is not entirely fair. As with the economy, Mr Obama took on a terrible inheritance from his predecessor. Iraq, Iran and Arab-Israeli peace were big burning fires when he took office. All have since been contained, to some extent, and largely by American efforts. Indeed, if damage-control was the mission, Mr Obama may claim a decent measure of success.

Mr Obama began with an assessment of what was wrong, and the steps needed to repair it. He expressed his urgency by appealing to Muslims through Arab media, in his impassioned Cairo speech in 2009, and by diplomacy to rebuild confidence with allied governments and on a smaller scale by expanding funding to civil-society groups and human-rights activists across the Middle East. Such initiatives can be hard to gauge, yet despite Mr Obama's falling regional approval and some worrying trends in public opinion, America's standing is better than it was in the Bush years. The number of Middle Easterners studying in American colleges, for instance, has nearly doubled in the past five years.

Improvement shows up, too, in the State Department's annual index of voting at the UN General Assembly. This has long revealed Arab states as the group least likely to vote with America. Voting coincidence stood at a peak of 40% under Bill Clinton. Under him it started to fall, reaching a feeble 10% in the Bush years. In 2009 Arab countries voted with America 20% of the time-not bad, considering that the average for all UN members was only 39%.



Thank you, neoconservatism

America's recent record on the big issues shows similar modest improvements. Iran's behaviour has still to change, but Mr Obama's mixture of diplomatic overtures and sticking to principles has left its rulers rattled and lonely. The administration's softer touch, says Karim Sadjadpour, an Iran expert at the Carnegie Endowment for International Peace,

has solidified the transatlantic alliance, allowing for tougher sanctions. It has also widened divisions inside Iran that may accelerate the regime's demise. In any case, sharp changes are unlikely in a government so ideologically blinkered, diplomatically inept and administratively opaque as Iran's.

On Iraq, too, the administration's achievements have been undramatic, but important. Critics forget that America's declared aim is not to create a pro-American bastion but to leave a stable, inclusive and democratic government and to protect Iraqi sovereignty. The dramatic reduction in American troop levels, from 150,000 to below 50,000, has gone more smoothly than expected. Despite Iran's influence over some factions, neither it nor other foreign would-be meddlers have made huge inroads. Iraq's government remains shaky and venal, but it is now, in the eyes of most Iraqis, a legitimate, independent institution and it has, so far, been fairly inclusive. In short, it is too early to judge whether Iraq will prove a write-off for America, or a dearly bought long-term asset.

The biggest headache

It is harder to defend America's record in the Arab-Israeli talks, except to note that Mr Obama has shown more determination than Mr Bush. The president has been accused from the right of making too much of Jewish colonisation in the West Bank, in effect granting a veto to the far-right elements in the coalition led by Israel's prime minister, Binyamin Netanyahu. But the focus on settlements came in response to pleas from the weak Palestinian president, Mahmoud Abbas, to give him something to convince his people-understandably sceptical after two decades of pedalling to nowhere-that talks might work.



Still in the thick of it

The Obama team may have underestimated Mr Netanyahu's ability to resist. The White House was outfoxed in Washington, where the Israeli leader used the mid-term elections for Congress and pro-Israel Republicans to cow the administration. The effort to coax Israel with American gifts, say Mr Obama's defenders, was a recognition that action was urgent. "They saw a risk", says Robert Malley of the International Crisis Group, "that if things don't happen in the next few months, they may lose two years in the run-up to the next US election, and have to kiss the whole Obama peace agenda goodbye." This hiatus could affect a range of Middle Eastern issues, from Iran to Lebanon.

By this logic, the administration's willingness to pay to keep peace hopes alive can be seen as admirable commitment rather than feebleness. Israel may have outbluffed America, using the power of its supporters in Congress, but it stands increasingly isolated in the world. The next time America asks Mr Netanyahu for something it could, conceivably, rally allies to exert pressure too, and this could unsettle Israel. American diplomats have already moved to sustain momentum by arranging for parallel talks between the two sides. Their leadership is still needed; nobody else is likely soon to step into America's peace-processing shoes.

In fact, the Middle East's need for an active America is as great as ever. Don't forget that America's footprint spreads across the region, and in most places still rests on a comfortable carpet. Smaller states welcome American forces, accepting the need for protection much as Europe did after the second world war. Iran may declare that its objective is to chase America from the Persian Gulf, but it is Iranian recalcitrance that prompts its neighbours to host American bases

and spend lavishly on American arms. Privately, most Iraqi leaders hope that American forces will stay. North African countries and Yemen quietly welcome American help against al-Qaeda.

America's present difficulties obscure longer-term successes. Gary Sick, who served on the National Security Council under Presidents Ford and Jimmy Carter and now teaches at Columbia University, sees oscillations rather than a declining influence in the Middle East. He recalls that in the Gulf, America had almost no permanent armed presence before the 1979 Iranian revolution. "We're on our way out of Iraq but not about to vanish," he says, noting that al-Udaid, the American air base in Qatar, is the busiest in the world, and Dubai's Jebel Ali port the most frequently visited by the American navy. "If our main purpose has been to keep oil flowing, well, it works," says Mr Sick. Another American target, global jihadism, is a work in progress; though in contrast to a decade ago, countering it is now a task that virtually every government in the world takes part in.

Yet even if America's influence endures, is it worth the price? Few Americans realise that the Persian Gulf nowadays supplies barely 10% of America's oil. Its value is far less than what the Pentagon spends on American fleets and bases in the region, even excluding the costs of war in Iraq and Afghanistan. America projects that over the next 25 years its dependence on Gulf energy will fall. Hence its armed muscle is, in effect, protecting the world from a Middle Eastern oil shock. That benefits America-because its consumers pay a world price for their oil. But it also benefits emerging rivals such as China and India, which shoulder none of the burden of serving as the world's policeman.

At the same time, the two things most consistently cited by Arabs and Muslims as their main objections to America-and which therefore serve as the biggest rallying calls to *jihad*-are its support for Israel and the regional presence of American forces. Neither of these is likely to change. That may one day lead Americans to ask why they invest so much in a troubled region with such poor returns.

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Israel, Hamas and Hizbullah

Missiles all round

Dec 29th 2010 | from PRINT EDITION

All sides have kept the peace by building up their arms

ISRAEL has enjoyed unusual quiet on its northern and southern borders since its short, bruising wars against Hizbullah, the Lebanese guerrilla force, in 2006, and Hamas, the Islamist Palestinian faction ruling Gaza, two years later. Yet many fear that the calm is illusory. "The next round won't be focused on one theatre but rather will incorporate two or three," warned Israel's outgoing head of military intelligence, Amos Yadlin, in November. "It will be much bigger, much wider in scope, and with many more casualties."

Such warnings should be taken seriously. Rearmament is proceeding apace. Hizbullah, which lobbed some 4,000 projectiles at Israel in its five-week war, is thought now to deploy 40,000-50,000 rockets. These are mostly short-range-those well behind UN peacekeeping lines could not reach the Israeli border, so would have to be smuggled forward. But its Zelzal II missiles, supplied by Syria and Iran, carry payloads of up to 600kg and are accurate to within 100 metres at a range of 200km. Hamas's far smaller arsenal has a few rockets that can reach Tel Aviv, Israel's largest city. In December an Israeli tank was struck from Gaza by a Russian-made, laser-guided Kornet missile, a sophisticated weapon used to great effect by Hizbullah, but hitherto absent from Gaza.

Israel itself has long been superior in weaponry and manpower. In 2006 it destroyed nearly all of Hizbullah's long-range rockets on the first day of fighting. Since then it has also muscled up, bolstered by American military aid, new attack helicopters and heavier guided bombs. The best of its armour is now protected by systems to deflect anti-tank missiles, and Israel is erecting a three-tier missile-defence shield against long, medium and short-range rockets-helped by $405m in extra American funding.

Demography and the economy

As boomers wrinkle

Dec 29th 2010 | *WASHINGTON, DC* | from PRINT EDITION

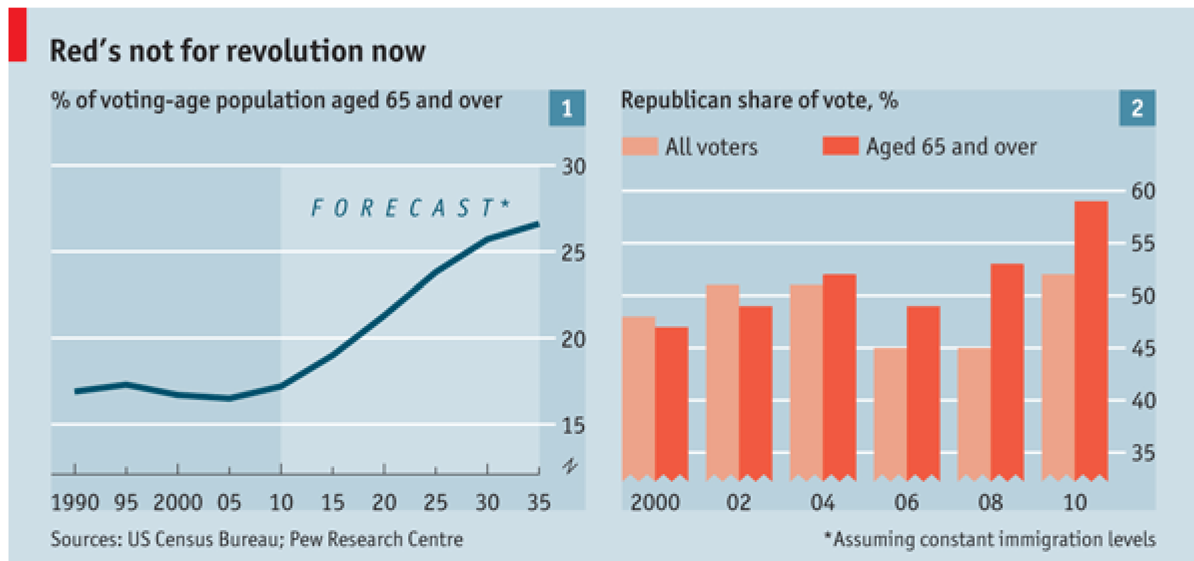
The most troublesome age group ever still has some last fireworks up its sleeve



FROM the moment they entered the workforce in the 1960s, baby-boomers began to shape America's economy and politics. They will do the same as they leave. The first of the estimated 78m Americans born between 1946 and 1964 turn 65 in 2011, the normal age for retirement. As their ranks swell in coming years, the burden of financing their retirement will mount. So will their electoral importance.

Retiring boomers will squeeze the economy from two directions. The number of people enrolled in Medicare (federally funded health care, available from the age of 65) will grow from 47m in 2010 to 80m in two decades' time. Enrolment in Social Security (federally funded pensions, available from the age of 62-67, depending on your birth year) will grow from 44m to 73m. The cost of the two programmes will grow from 8.4% of GDP in 2010 to 11.2% by 2030. Meanwhile, as boomers retire, the workforce will grow more slowly, as will the taxes to finance their benefits. The pensioner-worker imbalance and health-care inflation, which is driving up the bill for Medicare and Medicaid, the federal health benefit for the poor, will send the budget deficit into the stratosphere.

Both Barack Obama and Republicans in Congress claim that reforming such entitlements is a priority. But a demographic snag lies in the way. In the next two decades people aged 65 and over will rise from 17% of the voting-age population to 26% (see chart 1). Since the old vote more readily, their actual share of the electorate will be some three percentage points higher, reckons Robert Binstock, a political scientist at Case Western Reserve University in Cleveland.



In the past the political priorities and voting preferences of the elderly were much like everyone else's. Mr Binstock says this may be because ideological, economic or national-security issues loomed larger than greybeard ones, such as pensions. Or it may be because politicians, terrified of political retribution, avoided anything that would offend the old.

Advocacy groups, especially the almost 40m-member AARP (formerly the American Association of Retired Persons), have exploited this fear. Their support helped George Bush create the Medicare drug benefit in 2003, and their opposition helped kill his proposal for private Social Security accounts a few years later. In December, while most of Washington was transfixed by the tax deal between Mr Obama and the Republicans, AARP took aim at a scheduled cut in Medicare fees to doctors. After 100,000 of its members wrote, e-mailed and phoned, Congress voted almost unanimously to override the cuts, despite the $15 billion price tag.

In recent years the elderly have become a more distinctive voting block. People over 65 increasingly identify themselves as conservative and vote Republican, while young voters do the opposite, according to Andrew Kohut of the Pew Research Centre. The pattern was particularly striking in the last mid-term elections (see chart 2), when Republicans' share of the over-65 vote exceeded the Democrats' by a whopping 21 percentage points. For those under 25 the shares were reversed.

This may reflect a "cohort effect", the notion that a person's lifelong voting habits are established early on. Charlie Cook, a political analyst, says today's retired were shaped by the perceived failure of Jimmy Carter in the late 1970s and the success of Ronald Reagan in the 1980s. In 2008 some may also have identified more with the 72-year-old John McCain than the 47-year-old Mr Obama.

But it was the result of the 2010 mid-term elections that most clearly revealed entitlements as a driving political force. Andrea Campbell of the Massachusetts Institute of Technology believes it was the creation of Social Security in the 1930s and Medicare in the 1960s that transformed the elderly into the most politically engaged age group in America. Ever more comfortable in retirement, they had the time and the means to follow politics and an issue to motivate them. But threats to the programmes seldom seemed significant or imminent. That may have changed in 2010 with Mr Obama's health-care reform.

The president sought to insulate the elderly from any bad effects. While workers with employer-provided insurance will have their tax benefits curtailed and the affluent will pay Medicare tax on their investment income, the elderly got an immediate expansion of their Medicare drug coverage. In spite of that they remained, as they had begun, staunchly opposed to Mr Obama's reform. "They already have national health care," Ms Campbell explains, "and can't imagine extending coverage to 16% of the population without a hit to their benefits."

Republicans made hay with this. In August 2009 Sarah Palin falsely claimed that government "death panels" would decide who received health care. Republican senators targeted the Independent Payment Advisory Board, an expert panel created under the new law to recommend changes to Medicare coverage. Last July they accused it of threatening "access to quality care for seniors"-while at the same time, perversely, they attacked the health bill's failure to rein in "skyrocketing costs".

Traditionally, Republicans have been less trusted than Democrats on health care and Social Security. Polling by Rasmussen Reports suggests that by late 2010 they had made up this deficit. Whether they can maintain this near-parity is another matter. Their tea-party supporters are passionate about cutting the deficit and government spending, yet doing

either without touching benefits for the elderly is virtually impossible. Last year Mr Obama's bipartisan deficit commission recommended expanding the powers of Medicare's cost-control panel and scrapping or reforming the CLASS Act, which creates a new entitlement for long-term care of the old and frail. Paul Ryan and Alice Rivlin, Republican and Democratic commission members, have separately proposed replacing traditional Medicare with vouchers for private care. All those proposals are complete anathema to the elderly.

They are not alone. Ms Campbell says that young and middle-aged voters are just as opposed to benefit cuts, perhaps because they have elderly parents or realise that they too will one day need the benefits. Polls find that, among all voters, the single most popular fix is to raise the cap on earnings subject to the payroll tax-no doubt because this would be borne by a minority of affluent working people. Yet to finance the boomers' retirement with no cut in benefits would require unprecedented increases in taxes, which could be even more unpopular. The boomers' capacity to upset the political apple cart is as great as it ever was.

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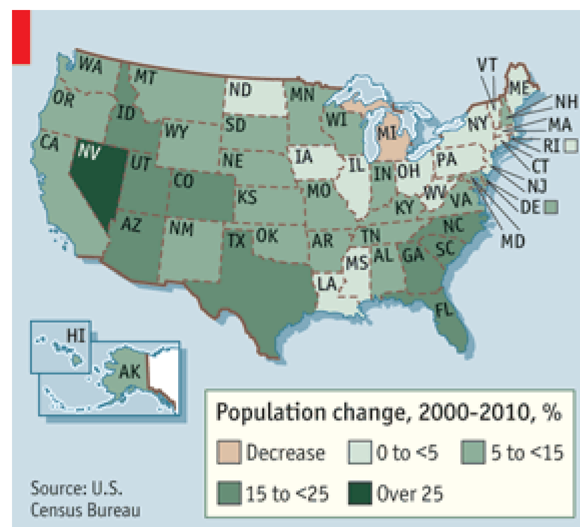
The 2010 census

Tilting rightwards

Dec 29th 2010 | *CHICAGO* | from PRINT EDITION

What the latest count shows about America

REPUBLICANS had a good electoral year in 2010. They seized the House of Representatives. They won more state legislative seats than at any point since 1928. The next decade, however, may bring even greater triumphs. The otherwise rather boring figures released on December 21st by the Census Bureau, in its latest look at the population, are, to Republicans, rather thrilling. When redistricting begins in 2011, several red states will gain congressional seats. Many blue states will lose them.



See all the population data in an

The constitution requires fair representation in Congress. After a decennial count of the population, therefore, congressional seats are divvied up among states accordingly, a process called reapportionment. One politician's gain is food for another's neuroses. In 1920 rural politicians felt so threatened by the burgeoning cities that they held back reapportionment until the next count, in 1930.

This year's census had its share of controversy. From the right, Glenn Beck of Fox News declared that illegal immigrants should be left out of the survey. Michele Bachmann, a Republican congresswoman from Minnesota, said that nine of the ten census questions were unconstitutional. (The first census had six questions, most written by James Madison.) In the end, however, the Census Bureau completed its count with fewer glitches than expected.

The 2010 census solidified many trends that began in the past century. The north-east and Midwest grew by 3.2% and 3.9% respectively, compared with 14.3% in the South and 13.8% in the West. For the first time, more people live in the West than the Midwest. This change might have been bigger but for the recession, which slowed migration to a trickle. America's population expanded by just 9.7% from 2000 to 2010, the slowest rate since the Great Depression. Nevada grew by 35.1%-quickly, to be sure, but a fraction of its 66.3% expansion in the 1990s.

The population's shift to the South and West means that congressional seats will move, too. The big winner from reapportionment is Texas, which will gain four seats. Florida will add two. Arizona, Georgia, Nevada, South Carolina, Utah and Washington state will all gain one seat. The only state in the sunbelt to lose a seat is Louisiana, which has suffered two hurricanes. The rest of the losing states are farther north. Ohio and New York will each shed two seats. Illinois, Iowa, Massachusetts, Michigan, Missouri, New Jersey and Pennsylvania will each lose one.

These shifts offer a little good news for Democrats. Latinos, who tend to vote Democratic, helped to fuel the growth of the sunbelt, so Democrats may venture into states that were previously blood-red. Redistricting may also spring a new generation of Hispanic leaders into Congress.

Mostly, however, the census is a boon to Republicans. The states that will lose seats are either Democratic strongholds or swing states. The loss of a congressional seat also means the loss of a vote in the electoral college, which decides presidential elections. States that voted for Barack Obama in 2008 will have less sway in 2012.

Moreover, Republicans will have unprecedented control over redistricting. In November voters chose Republicans to lead state legislatures. Because these legislatures guide redistricting, Republicans will now be able to choose their voters.

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New York's new governor

Fathers and sons

Dec 29th 2010 | *NEW YORK* | from PRINT EDITION

High hopes for Andrew Cuomo are tempered by austere times

THE inauguration of Andrew Cuomo as governor of New York state will be a low-key affair. Unlike Eliot Spitzer's 2007 inaugural, a sort of coronation at which James Taylor sang, Mr Cuomo's will be drab. He will simply take the oath of office at midnight on New Year's Eve. Twelve hours later he will be sworn in. "This is not a time for the grand and expensive celebrations of the recent past," he says. "It is the time to return dignity, integrity and performance to state government."

Those have been in short supply for nearly four years. Mr Spitzer's arrogant ways, honed as he fought fraud on Wall Street, caused political gridlock in Albany, the state capital. Little more than a year into his term, he resigned after being caught consorting with a prostitute. David Paterson, his successor, was an affable fellow who proved incompetent and gaffe-prone. He dropped out of the governor's race after a week, and Mr Cuomo handily won the election in November.

"His knowledge of politics in Albany is unprecedented in modern history," claims Doug Muzzio, a politics professor at Baruch College. That is mostly because Mr Cuomo was a chief aide to his father Mario, a former governor. He sees Hugh Carey, the governor who saved New York City during the 1975 financial crisis, as a model; Mr Carey's warning to the state legislature that "the days of wine and roses are over" may well be heard again. As head of the federal Housing and Urban Development Agency under Bill Clinton, Mr Cuomo made no particular waves. But he has won accolades as a politically savvy attorney-general in New York. He has just filed a lawsuit against Ernst & Young, an accounting firm, which he accuses of helping its client Lehman Brothers "engage in a massive accounting fraud" (see article).

If Mr Cuomo actually gets anything done, that would be a novel departure in the Empire State. Within days of announcing his candidacy, he unveiled a 252-page plan that tackled everything from the state's abysmal finances to ethics proposals.

Since then he has issued seven more manifestos, on topics ranging from job creation to farming to property taxes, which he wants to cap at 2%. Between 1998 and 2008, local property taxes in New York state grew by 73%.

The new governor faces a $9 billion deficit. Mr Paterson made some deep cuts this year to close the gap; more will come under Mr Cuomo, who ran as a fiscal conservative. There will also be blood: more state job cuts are likely. If the state legislature fails to co-operate (as is its wont), Mr Cuomo could well use Mr Paterson's novel, though desperate, strategy of issuing executive orders to get his budget passed. For the moment, he is trying a different tack. He has already met Assembly leaders, including Sheldon Silver, the powerful speaker, and has been talking to the unions, with whom he will also have to negotiate. He has the support of the Committee to Save New York, a group of businessmen that includes Felix Rohatyn, who restructured New York City's debt in the 1970s. The committee is in the thick of raising $10m to battle the unions over salaries, pensions and benefits.

In many ways Mr Cuomo is the anointed heir at last ascending to the throne. But after a disastrous campaign for the job in 2002, ending with his withdrawal from the race, the son of the famously angst-ridden Mario has become more cautious than he was. He knows he has to prove himself capable, and fast. It is all very well to make a show of keeping his inauguration simple and making his staff work on New Year's Day; but after four years of drift the good folk of New York hope to see a bit of substance, as well as a change of style.

Christian theme parks

Noah problem

Dec 29th 2010 | *PETERSBURG, KENTUCKY* | from PRINT EDITION

Can a faith park enjoy state tax incentives?



Kentucky's dry!

THE cubit is not merely an obsolete unit; it is also an imprecise one. One cubit is the length of a man's arm from elbow to fingertips, but different people have different-sized arms, so cubits range from 17.5 to 20.6 inches (44.5 to 52.3cm). Whichever length one plumps for, however, a boat 300 cubits long, 50 cubits wide and 30 cubits high is undeniably

immense. Yet if all goes according to plan, some time in 2011 a team of Amish builders will begin constructing such a boat on an 800-acre (324-hectare) plot of land in Grant County, Kentucky.

A few millennia back, if you believe your Bible, another team of builders in the Middle East constructed a boat of that size. It held two of every kind of animal, survived a flood for a long time and was piloted by a righteous man named Noah. The Kentucky Ark, however, will anchor a $149.5m theme park called Ark Encounter, which will also feature a Tower of Babel, complete with a "500-seat 5-D special effects theatre", a replica first-century village, a walled city, a children's zoo and an aviary.

Some see a rising tide: the park hopes to employ 900 people and draw 1.6m visitors in its first year, which should be 2014. It is 45 miles from the Creation Museum in Petersburg, Kentucky, which has drawn more than 1.2m visitors since it opened in 2007. It will be difficult to visit both in a single day, so all those visitors will need to sleep and eat somewhere.

But some see stormier waters. The park will be managed by a subsidiary of Answers in Genesis (AiG), which owns and runs the Creation Museum and requires its employees to adhere to a statement of faith that the Bible is "inerrant" and its assertions "factually true". Under Kentucky's Tourism Development Act, Ark Encounter may recoup up to 25% of its costs over its first ten years from the sales tax generated on-site. Providing tax incentives to a religious theme park makes some secular people nervous.

Yet AiG is not in charge of hiring for Ark Encounter, and the park's employees will not need to adhere to the statement of faith. Kentucky's Tourism Development Act provides tax incentives for any qualified tourism project. A 2009 ruling by the United States Court of Appeals for the Sixth Circuit, which includes Kentucky, said that as long as such programmes endorse "all qualified applicants", they endorse "none of them, and accordingly [do not] run afoul of the federal or state religion clauses." Onward, Christian tourists.

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Las Vegas in crisis

Party over

Dec 29th 2010 | *LAS VEGAS* | from PRINT EDITION

The city's troubles are part cyclical, part existential



A palace somewhat short of Caesar's

AS MAYOR of Las Vegas for almost 12 years, Oscar Goodman has made it his mission to personify what he calls this "adult playland" in the desert. He prances through the casinos with scantily clad showgirls draped on each arm (although he is happily married). He claims to drink a bottle of gin every night (but "never before 5pm"). In his office he sits on a carved throne and gives visitors a symbolic gambling chip that depicts him, with his trademark Martini glass, as "the happiest mayor of the greatest city in the world".

Alas, much of this, like most things in Las Vegas, is purely show. This is not merely because the famous Strip of hotels and casinos that accounts for more than half of all gaming in the state is deliberately (for tax reasons) just outside the city limits, and thus beyond Mr Goodman's remit. More important, few residents of Las Vegas would any longer agree that their city is either great or happy.

Nevada has America's highest unemployment rate. In Las Vegas, unemployment has risen more this year even as it has flattened in the rest of the country; it peaked at 15.5% in September. Nevada also has America's highest foreclosure rate. In Las Vegas more than 70% of homeowners with mortgages owe more to the bank than their houses are worth. This desert valley, which once represented the most extreme pleasures in American consumerism, now has the most severe hangover.

There are signs of recovery, but they lag those in the rest of the country. Whether house prices, visitor numbers or gambling revenues, "the numbers are bumping along the bottom", increasing in some months and flattening again in others, says Stephen Brown, director of the Centre for Business and Economic Research at the University of Nevada, Las Vegas.

The question is whether there will ever be a complete recovery, or whether something more fundamental has changed, threatening the existence of places that rely directly or indirectly on gambling. (Nevada has no income tax, for example, financing its services largely from gaming and sales taxes paid mostly by tourists.) Mr Goodman, typically sunny, says "We're heading back to where we were." Others have their doubts. Las Vegas "needs easy money and easy virtue" to prosper, says Eric Herzik, a professor at the University of Nevada, Reno. Well before the last boom the state was built on excess, and with Americans and foreigners (ie, most potential tourists) "down on excess, our whole model is now being questioned."

Once the famous Comstock Lode ran out of silver in the 1880s, Nevada made legalised sin its new foundation. It started with prizefighting, illegal elsewhere in an era of bare-knuckle boxing. Then-in 1931, conveniently pre-empting the Great Depression-the state introduced the country's laxest divorce laws to attract frustrated spouses. On the very same day it legalised gambling, which has been the mainstay of its economy ever since. It is supplemented by complementary industries, from prostitution (legal in the rural counties and allegedly available in Las Vegas) to gourmet cuisine.

Las Vegas also "thrived on irresponsibility" in a second, related, way, says Michael Green, a historian at the College of Southern Nevada. Just as the booming gambling and tourism industries provided new jobs, the parched but spacious valley provided new housing. Thus the population of Clark County, the area around Las Vegas, quadrupled between the 1980s and 2008 (before shrinking slightly in 2009), as people from southern California, in particular, fled overpriced houses and moved to Las Vegas. This caused one of the biggest construction booms and housing bubbles in the nation.

Then, in 2008, all these bubbles popped. Whether in or out of state, Americans, who had recently felt rich because of their inflated house values, suddenly felt poor and out of luck. They stopped coming or, if they came, sat for less time at the tables and gambled less. They became "gun-shy," says David Schwartz, the director of the Centre for Gaming Research at the University of Nevada, Las Vegas.

Tourists are now returning, but in numbers too small and with mindsets too cautious to help Las Vegas much: they are spending less on each visit than before the bust. Two huge and glitzy casino-hotel complexes, both conceived before the bust, opened recently, adding yet more rooms to the city's already dire overcapacity and forcing other hotel operators to discount even more. And yet, even though Las Vegas has become "a bargain", as Mr Goodman says, many tourists who want to gamble increasingly ignore the city (and intimate airport pat-downs) altogether by patronising Mississippi river boats, Indian casinos or the internet.

Mr Goodman, who insists that the city's only big problem is the term limits that are forcing him out of office next year, rejects all such pessimism. He wants people to be aware of the cultural offerings he has brought to the city, from classical music to a new mobster museum due to open soon (a lawyer, Mr Goodman once defended alleged mobsters in court and even starred in the film "Casino" in that role). He dreams, too, of attracting a big sports team. A new hospital has opened, and Mr Goodman predicts a boom in "medical tourism", as boomers come for new hips while their families have fun on the Strip.

Las Vegas has never been much good at diversification. It is good at one thing, and for now the zeitgeist has turned against it. But one day flamboyant sin will be back to help Mr Goodman and his city out. Just not very quickly.

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Lexington

Goths at the gate

Dec 29th 2010 | from PRINT EDITION

After two years of Democratic ascendancy, Washington braces for divided government



LIKE Rome before its sacking, Washington is not entirely sure what to expect when the newly elected Republican-controlled House of Representatives settles down to work in the nation's capital on January 5th. But it does know, in a general sort of way, that a certain amount of unpleasantness lies ahead.

To judge by what they say, the incoming Republicans see themselves less as Goths than as cleansers of the Augean stables. Before November's elections they portrayed "Washington"-a constellation embracing the president, the federal government and the pork-ladling, tax-raising, freedom-crushing Congress-as a monster that trampled on the people's rights, smothered enterprise with pointless regulation and pauperised future generations by spending money it did not have. They are promising to cut it down to size-and fast.

They do, however, face a small difficulty. For the fact is that they have not actually won control of Washington. They will control the House with a handsome majority of 242 to 193. But the Democrats will continue to have a majority, albeit a diminished one, in the Senate; and Barack Obama has at least two more years as president. Moreover, the Democrats showed during the lame-duck session in November and December that in spite of their mid-term chastisement they still have some fight left in them. Indeed, the 111th Congress ended in an unexpected parade of successes for Mr Obama, who after a cheerful, self-congratulatory press conference departed for an end-of-year holiday in Hawaii with an unmistakable swagger in his step.

What rescued Mr Obama from the tetchy despond he fell into immediately after the mid-terms? First came his Houdini-like escape from the trap he faced as George Bush's "temporary" tax reductions were due to expire. Forced to extend them for the rich as well as the poor, he was able to do so as part of a deal that included a big new dose of stimulus spending the Republicans had long opposed, thereby turning defeat into what could be presented as victory. And though for want of a supermajority in the Senate the Democrats failed to pass the DREAM bill, which would have given the children of illegal

immigrants a path to citizenship, they notched up other successes. Two notable ones were the repeal of the ban on homosexuals serving openly in the armed forces, and ratification of the New START arms-reduction treaty with Russia.

The incoming Republicans can tell themselves that these were just the parting shots of a Congress that is now defunct and that everything in the 112th Congress will be different. The Republicans in the new House are a more conservative bunch than in the old one. Some 55 of the 63 new ones signed the Contract from America, a stables-cleansing manifesto that calls for repealing health-care reform, adding a balanced-budget amendment to the constitution, capping federal spending and writing a new tax code no longer than the 4,543 words of the original constitution. A record 127 House Republicans have joined the Republican Study Committee, a hard-core conservative group whose chairman, Tom Price of Georgia, promises that the new House will lay on "a master-course in liberty and freedom" as it blocks the "terrible, terrible" things the Democrats got up to during the 111th.

The Democrats had indeed better forget about passing controversial legislation in the coming two years. At most they can try to advance their policies by using the president's power to lay down regulations and manage federal agencies. "The ability of President Obama to accomplish important change through these powers should not be underestimated," says John Podesta, president of the left-leaning Centre for American Progress. Thus the Environmental Protection Agency intends to order power plants and refineries to cut greenhouse-gas emissions, a move the Republicans denounce as a "back-door" attempt to impose cap-and-trade. But at the same time the Democrats will face a formidable counter-offensive mounted from the new House.

Like the Democrats, the Republicans will not be able to advance many of their aims by legislation. If they try to repeal Obamacare, for example, the president will simply veto their bill. But they have plenty of other weapons to hand. Control of the House gives them power over money and a duty to oversee the executive branch. Darrell Issa, the new chairman of the oversight committee, hopes to close whole chunks of the federal government in the name of savings and efficiency. Fred Upton, the new chairman of the energy and commerce committee, promises to be "relentless" in his oversight duties. And the House Republicans can always pass bills that they know will fail in the Senate, or be vetoed by the president, simply to advertise where they stand and boost the chances of a Republican presidential victory in 2012.

Beauty pageant or ugliness contest?

For all that, the Democrats' successes in the lame-duck session do hold some lessons for the period of divided government that is about to begin. All those successes were in fact delivered by bipartisan majorities. The new Congress, too, cannot be purged of every trace of bipartisanship. If the Republicans subordinate everything to their goal of ousting Mr Obama in 2012, they risk striking voters as obstructionist zealots. In the next Congress, as in the last one, issues will sometimes arise on which each party has internal divisions and which call forth a bipartisan response.

Divided government may look ungainly, but it has its admirers. In theory, it can set up a sort of beauty contest, forcing the parties towards a golden mean in the centre of politics. The trouble is that it can also set up an ugliness contest, as irreconcilable ideologies bring the normal functions of government to a standstill. America's Chinese creditors, viewing the strange spectacle from afar, will no doubt conclude, as the old curse has it, that the United States is entering interesting times.

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Hugo Chavez's Venezuela

A coup against the constitution

Dec 28th 2010 | *CARACAS* | from PRINT EDITION

Rather than share power with the opposition, Hugo Chavez castrates the newly elected legislature



IN AN election for the National Assembly last September, Venezuelan voters sent a clear message to Hugo Chavez, their autocratic elected president. Slightly more of them voted for opposition candidates than for the ruling party and its allies. Thanks to the government's manipulation of the electoral rules, the opposition's votes only translated into 67 seats, whereas the chavistas ended up with 98. But even that was not secure enough for Mr Chavez.

He has used the final three months of the outgoing assembly, in which he has an overwhelming majority, to render irrelevant the incoming legislature, due to be sworn in on January 5th. The centrepiece of this effort is an enabling law which grants the government the power to rule by decree for the next 18 months.

The assembly's other functions have been curtailed too. Under a swiftly approved reform of its internal rules, the legislature will now meet as little as four days a month. All parliamentary commissions will be controlled by the government, and speeches to the assembly on any given topic will be limited to a total of 15 minutes per member. Debates will only be transmitted by government television channels, allowing the authorities to gag dissident voices.

In addition, assembly members will henceforth be barred from swapping parties on pain of losing their seat-a measure which suggests that Mr Chavez doubts the loyalty of some of his own supporters. Meanwhile some of the opposition members face judicial persecution. One of their number, Jose Sanchez, a former police commander, has been sentenced to 19 years in jail for his supposed involvement in a murder, even though the constitution grants assembly members legal immunity.

The new assembly was due to appoint several supreme-court justices to replace those due to retire. Such appointments require a two-thirds majority, and thus would have involved an agreement with the opposition. To circumvent the need for that, the outgoing assembly rushed through the naming of nine new justices (and 32 stand-ins). All are chavista loyalists, and four are retiring assembly members.

The outgoing assembly also rubber-stamped other far-reaching measures. A new higher-education law ends the autonomy of the main universities and gives administrative and blue-collar staff equal rights with (more troublesome) academics in electing rectors. Non-governmental organisations will not be allowed to receive funding from abroad, a change which may force many to close.

Another new law allows the president to transfer the powers and resources of local government to socialist communes, potentially neutering the opposition's electoral victories in many big cities in 2008. Reforms to the broadcasting and telecommunications laws, which have now been extended to cover the internet and mobile telephones, seek to restrict the distribution of information critical of the government by making the carrier of the message liable for the content. Punishment will be meted out for messages deemed to promote disrespect for the country's institutions or "alarm" among the population.

Mr Chavez justified the enabling law-a device he has used previously during his dozen years in office-as a necessary response to flooding that has killed 40 people. That seemed a particularly lame argument. In the view of the opposition, his legislative blitzkrieg amounts to a coup by the executive against other branches of government, in violation of the 1999 constitution which Mr Chavez himself inspired. Calling the government a "tyranny" seeking to install a "communist

system", the opposition called for "peaceful but energetic" resistance. The universities and business groups are among those organising against Mr Chavez's onslaught. In western Venezuela farmers, in many cases backed by their labourers, have blocked roads to prevent the army from executing a presidential order to expropriate their land around Lake Maracaibo.

All eyes are now fixed on a presidential election in two years time, at which Mr Chavez says he will seek yet another six-year term. The president and his most senior general have both said that the armed forces will not tolerate an opposition victory in that election. Peaceful protesters outside parliament against the new laws have been attacked by the government's thugs, as well as by the security forces, and many people have been injured. All this suggests that the government is trying to provoke the opposition to violence. So far it has not succeeded.

Although the opposition has long accused Mr Chavez of ruling as a dictator, Venezuela has hitherto retained many of the outward appearances of democracy. Now, it seems, the president is finally taking off his democratic mask.

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Brazil's new president

Coming down to earth

Dec 29th 2010 | *SÃƒO PAULO* | from PRINT EDITION

Dilma Rousseff takes over a booming economy-and rising inflation and interest rates, lack of investment in infrastructure and a fiscally incontinent legislature



Dilma starts to move out from Lula's shadow

AS SHE steps into Brazil's presidency on January 1st, Dilma Rousseff can be cautiously pleased with herself. In choosing her 37 ministers she has made a reasonable job of satisfying the competing demands of her party and coalition, regional and ideological blocks and her own desire for a third of them to be women (she managed nine). In making Antonio Palocci, a former finance minister, her chief of staff she showed self-confidence: some thought she would balk at putting such a powerful political figure in a central role. Both that choice and her promotion of Alexandre Tombini from the Central Bank's board to its presidency pleased investors looking for signals of economic orthodoxy. She has even managed to remain gracious towards her predecessor, Luiz Inacio Lula da Silva, despite her political mentor's running commentary on her progress.

In the run-up to her inauguration, Ms Rousseff also received pointed reminders of the difficulties ahead. In a statesmanlike victory speech on October 31st she stressed that her priorities over the next four years were to eliminate extreme poverty and improve the quality of health care and education while maintaining economic stability and low inflation.

She has said she wants real interest rates, currently higher than those in any other big economy, to fall from 5% to 2% by 2014. But inflation crept up to 5.6% in November. The finance minister, Guido Mantega, who is keeping his job under Ms Rousseff, raised bank-reserve and capital requirements in a bid to cool the economy while forestalling rate hikes. Though the Central Bank duly stayed its hand, its quarterly inflation report, released on December 22nd, made it clear that the reprieve is temporary. Many economists expect a half-point rise in the benchmark Selic rate (now 10.75%) in January, and a further two or three such rises during the year.

That will put more upward pressure on a currency that more than doubled in value against the dollar during Lula's eight years as president. Tony Volpon of Nomura Securities, a stockbroker, reckons Brazil's treasury is losing around 40 billion reais ($24 billion) a year as it sells Brazilian bonds to foreigners while investing the proceeds in dollar instruments yielding ten percentage points less. In October Mr Mantega tripled a tax on foreign investment in fixed-income securities to try to hold back the flood. But the real has finished the year no lower.

If interest rates, and the currency they undergird, are to fall as Ms Rousseff wants, she will have to slow the hectic increase in federal spending. The bill for payroll and pensions has risen far faster than inflation in recent years, with the task of keeping inflation under control left entirely to monetary policy. In the past three years the government has ramped up the resources of the national development bank, BNDES, by at least 210 billion reais, allowing it to expand lending for infrastructure projects and a host of other ventures less obviously deserving of state support. According to IPEA, a government-linked research outfit, the BNDES's subsidised interest rates cost taxpayers up to 21 billion reais a year.

Ms Rousseff has spoken of the need to end such fiscal incontinence: she wants to cut net government debt, now 42%, to 30% of GDP over her term. She is resisting pressure from her Workers' Party and its allies for a big rise in the minimum wage. At the end of November Mr Mantega said that he would provide the BNDES with only half as much extra funding in 2011 as it has had this year. To encourage the private sector to take up the slack he will slash taxes on bonds to pay for new, government-approved infrastructure projects. But as long as such high returns are available on short-term government paper, even a tax break may not make longer-term, riskier investments look sufficiently appetising.

Lula chose Ms Rousseff as his successor partly because more obvious alternatives were ruled out by various scandals. But he also saw in her someone who could turn big plans into reality. Brazil has long spent too little on infrastructure, and economic growth is making the shortfall ever more painfully apparent. As a local energy official, Ms Rousseff kept the lights on after a drought in 2001 led to electricity rationing. She went on to run the government's giant infrastructure programme, known as PAC: during her election campaign Lula dubbed her the "mother of PAC".

If she fails on this front, she knows it will be with the world watching. Brazil is to host the football World Cup in 2014. By then it will also be clear whether work for the Olympic games to be held in Rio de Janeiro two years later is on track. Airports are the most pressing concern: passenger numbers grew by 13% during 2009, and further strong growth is expected. But most of the main airports are already operating above capacity. They are managed by Infraero, an air-force dominated state company that is a Brazilian byword for bureaucratic obstruction and incompetence. Of the more than 5 billion reais Infraero has earmarked for investment in the run-up to 2014, more than half is on projects that are already behind schedule.

Ms Rousseff considered taking Infraero away from the ministry of defence and giving it to the minister for ports. That would have made it easier to bring in private money, and perhaps private management too. But a narrowly averted strike over pay by airline staff in the run-up to Christmas delayed, and may block, the switch.

The biggest obstacle to Ms Rousseff's plans to spend less day to day, in order to invest in the infrastructure for which she hopes to be remembered, will be her fellow politicians. If she did not already know that, she was given a reminder on December 15th, when members of Congress voted themselves a 62% pay rise. Many state governments and municipalities have already followed suit. If all do, the total cost will run to around 2.2 billion reais a year. In a rare misjudgment of the public mood, Lula laughingly lamented his bad luck to be leaving just before the largesse arrived. "They are joking about our money," ran one newspaper headline. In the airports, protesters carried banners asking why politicians can get huge pay rises, but they cannot. Their strike may still go ahead in the new year, bringing Ms Rousseff down to earth with a bump.

Thailand's red-shirt opposition

Beware the watermelons

Dec 29th 2010 | *KHON KAEN* | from PRINT EDITION

Politics remain dangerously polarised at the start of an election year



"IT'S true that we feel anti-government, and we will try to avoid serving the government's demands," says a uniformed police colonel calmly but deliberately. Sitting behind his desk in Khon Kaen, a provincial capital in north-eastern Thailand, he says that about 90% of his local colleagues harbour equally seditious thoughts. They are fed up with being exploited by the government in Bangkok to "discredit and obstruct the opposition every day", manufacture evidence and apply the law unequally.

The colonel, who is reluctant to give his name, was one of the many officers bused into Bangkok to police the demonstrations last April and May by self-styled "red shirts", the main opposition to the government. By day he loyally did his job, but by night he, like many of his colleagues, donned a red bandanna and fraternised with the protesters. He was not there on May 19th when the army-unjustifiably in his view-stormed the red-shirt camp. He complains that, although many of the protesters who were rounded up are still in prison, no one has yet been brought to justice for the killing of 90 or so people during the weeks of protests. The injustice and oppression in Thai society that red shirts talk of is what "the police see and feel every day", the colonel says.

On December 22nd the government lifted a state of emergency that it had declared in Bangkok and surrounding areas during the red-shirt unrest. But such complaints by a senior officer suggest that the conservative coalition government led by Abhisit Vejjajiva of the Democrat Party is far from secure as it begins its third year in office. Openly red policemen are nicknamed tomatoes by the public. The colonel says that in his part of Thailand only a slightly smaller proportion of soldiers than police share his political views. Green on the outside but red at the core, these troops are called watermelons.

The government promised a process of "reconciliation" after the killings in May, but there is little sign of one. Even the best-mannered of the government's critics-let alone the radicals in the north-east-survive in an atmosphere of fear and intimidation. The government is required to hold general elections before the end of 2011. In a broadcast on December 26th Mr Abhisit hinted that the poll will take place sooner rather than later. He hopes the election will be peaceful, but in today's bitter and polarised political environment few expect the build-up to them to be anything other than violent. The red shirts have vowed to take to the streets again twice each month. A new and apparently harder-line army chief, General Prayuth Chan-ocha, is waiting for them.

A lot, then, will turn on the strength of the red shirts. The movement was founded to support the former prime minister, Thaksin Shinawatra, who was ousted in a coup in 2006. For many reds, Mr Thaksin remains a hero. They hope for his return from Dubai after the election. Mr Thaksin is particularly popular in rural areas, such as the north-east, where his microcredit and health-care schemes helped the poor so much that the present government is extending them.

Mr Thaksin's supporters also credit him with trying to bring democracy to Thailand. (He convincingly won two elections before being forced into exile.) They believe he was usurped by a conservative, aristocratic establishment. Many red shirts favour a reform of the monarchy, to reduce its power and influence. Mr Thaksin's supporters range from former provincial governors to students sporting Che Guevara T-shirts, and from businessmen to policemen. If all his supporters voted for his Pheu Thai party then it would almost certainly win the election, even if not with an overall majority.

The government has used the emergency laws and other security legislation to round up red-shirt activists. But the movement is now strong enough in areas like the north-east to flourish in spite of such measures. The red shirts have set up their own radio stations to compete with the government's despised broadcasting service. The government, knowing how influential these stations can be in rural areas where villagers depend on radio for news, has been playing a cat-and-mouse game to get them off the air. Thanik Maseepitak, a red businessman, erected a state-of-the-art radio mast and equipped a broadcasting studio in Khon Kaen early in 2010, only for it to be ruled illegal. Two hundred soldiers arrived in October to cut all the mast-wires and cart off the studio kit. Undeterred, he has just set up another radio station in a nearby village. To avoid detection it changes frequency almost every day.

Doubts persist as to whether the movement can emerge as anything more than a fan club for Mr Thaksin, who is a divisive figure in Thailand. (In 2008 he was convicted in absentia of corruption.) The leadership of the Pheu Thai party is weak and disunited, and there could well be defections from the party as it wrestles with the question of how much influence Mr Thaksin should exert over it. This could play into the hands of Mr Abhisit. In order to win over red-shirt supporters, his government has announced a string of populist economic policies, such as free schooling for 12m students, more financial support for the elderly and, most recently, low-cost loans for the poor. Thailand's strong economic performance might help him too. But the ripe tomatoes and sour watermelons remain to be convinced.

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Tensions on the Korean peninsula

Talking down the barrel of a gun

Dec 29th 2010 | *SEOUL AND TOKYO* | from PRINT EDITION

After a bold show of force, South Korea revives the prospect of talks



Praying for peace

IF ROUND one in the renewed phoney war on the peninsula indisputably went to North Korea, after its attack on the island of Yeonpyeong in November, round two over Christmas went to Seoul-on propaganda points, at least. The South sought to deter further aggression by staging a large show of force in exercises involving the firing of live ammunition near North Korea. On December 29th its president, Lee Myung-bak, followed this up with a surprise call for dialogue.

The military drills were delicate, particularly one on December 20th around Yeonpyeong. But there was no armed retaliation. Instead, on the same day, Pyongyang let it be known it was willing to admit United Nations nuclear inspectors into its recently unveiled uranium-enrichment facility. Nor did the North make any attempt to shoot the lights off a towering Christmas tree, which was illuminated for the first time in seven years by evangelists from the South within range of religion-loathing North Korean snipers.

Militarily, the situation remains on a hair-trigger. On December 23rd a commander in Pyongyang threatened to use nuclear weapons in a "sacred war" if the North was attacked. In a similarly implacable year-end radio address, South Korea's President Lee warned that the South would respond "relentlessly" to any North Korean attack, whatever the risk.

But a government source said President Lee was also keen to remind North Korea that his government remains open for talks under the six-party framework, involving North and South Korea, America, China, Japan and Russia. First, however, it needs assurances from Pyongyang that it is committed to scrap its nuclear arsenal.

This may be an attempt to defuse tensions. After all, in Seoul there are widespread fears of more attacks next year and possibly a third nuclear test. Such aggression would leave Mr Lee little option but to retaliate. His popularity dipped sharply when the armed forces were perceived as weak in their response to the Yeonpyeong attack and the torpedoing in March, allegedly by North Korea, of a naval corvette in which 46 sailors died.

From overseas too, there are calls for a stronger response. Burwell Bell, a retired general who led American forces in South Korea in 2006-08, argued in a recent paper that America should return an Army attack-helicopter battalion to South Korea and base an additional air-force fighter squadron there. He called the situation the most dangerous it has been in years.

China, North Korea's backer, insists on denuclearisation talks as the way to settle the peninsula's problems. America has ridiculed the idea of talking for the sake of talking. But after President Lee's latest statement, there will be plenty to discuss when America's defence secretary, Robert Gates, visits Beijing on January 9th and President Hu Jintao travels to America on January 19th. Even with the prospect of talks, the peninsula is a more dangerous place than it has been for years.

Beijing's traffic woes

Hitting the brakes

Dec 29th 2010 | from PRINT EDITION

China's souped-up car market gets detuned



EVEN by the standards of China's relentlessly booming car market, the first three weeks of December in Beijing were frenzied. New cars sold at double the usual rate. Dealers ran out of stock as customers flooded into showrooms. Many buyers offered to pay extra to guarantee quick delivery. This week, however, sales have slumped.

Beijing residents were rushing to beat the introduction on December 24th of a new lottery system for issuing car licence plates. This will restrict registrations to just 240,000 additional vehicles in 2011, a third of the current annual level. New registrations are only being given to those who have paid tax and social insurance in the city for more than five years. At one stroke this has taken 10m potential buyers out of the market. Sales to government offices are also being frozen. Cars licensed in other parts of China are now forbidden from driving during peak hours in the capital's main urban area.

The new measures are mainly aimed at Beijing's growing traffic congestion. The city's motorists had 4.7m vehicles at the end of November, 6% more than in August. Gridlock has become as bad as in Mexico City (as has pollution).

Car sales elsewhere in China could also suffer soon. National subsidies on small-car sales will end on January 1st. For several years Shanghai has been auctioning licence plates and, with prices averaging a record 46,000 yuan ($6,900) recently, other cities are keen to follow suit. Guangzhou, Shenzhen and Hangzhou are toying with congestion charges. Ningbo is even considering forcing citizens to own a parking space before they can buy a car. China's new middle class could find its cherished status symbol harder to obtain.

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Kashmir's troubles

Shaking the mountains

Dec 29th 2010 | *SRINAGAR* | from PRINT EDITION

India's response to an uprising in Kashmir has been, by turns, repressive and complacent. It is storing up trouble for the future



A GROUP of special Indian police barged into a white-painted, single-storey house on the crisp morning of October 27th. They let their *lathis* do the talking. The wooden batons were first rammed through all the windows, furniture and a television. When the grey-haired owners protested, the rods were turned on them. The police broke the husband's leg and beat his wife's flesh a sickly purple. Before leaving, the officers added an insult, hurling religious books, including a Koran, to the floor.

Such intrusions are common in Palhallan, a hillside settlement in the north of Indian-run Kashmir. It looks like an idyllic rural spot, where bushels of red chilies hang from the eves of steep-roofed wooden houses and hay wains jostle with shepherds in narrow streets. But the village has been caught up in months of violent protests that have roiled Kashmir. In 2010 an uprising led by youthful Kashmiri separatists left over 110 people dead and thousands injured. Youngsters daub anti-India slogans on walls, yell at Indian police and soldiers to "go home", and hurl stones.

In turn its residents have taken a beating. A young man lifts his hand to his head, showing a zip-like scar running from the crown of his skull to his neck. It is the result, he says, of a police battering. His lament is typical: "I am an unpolitical person, but they treat me like a terrorist." Locals say they suffer collective punishment. Enraged officers usually fail to catch stone-lobbers, so lash out instead at families and residents nearby, accusing them, usually unfairly, of collusion.

As a military helicopter buzzes overhead, a resident counts eight people killed and many more hurt in the area in the previous three months. Bitterness deepens with each injury and funeral. "The police," he says, "they want to start a war." A return to war, or widespread armed insurgency, is unlikely for the moment. But fury has spread, spurring some young Kashmiris to demand a more violent, more bloody response than mere strikes and stones.

On November 10th three men in Pattan, a small town a few minutes' drive down the hill from Palhallan, took matters into their own hands. Hidden in the crowd of a bustling market they marched up to a pair of police constables, shot them at close range, snatched their rifles and fled. Both the policemen died. The Kashmiris have aped Palestinian methods, mobbing India's ill-trained, sometimes panicky, police, by raining stones and broken bricks on them.

The police-more in the habit of using sticks and bamboo shields-have struggled, fighting back with huge quantities of tear-gas (tens of thousands of canisters were fired in 2010) and then bullets. They have reckoned that any protesters who die have themselves to blame. Officials in Delhi bristle at any comparison between the year's events and Bloody Sunday in Northern Ireland or the unrest in neighbouring Tibet. Kashmiris, they insist, have their own land and state, enjoy religious freedom, are by no means the poorest in India and take part in elections, most notably in 2008.

But there are severe limits to their democracy. Peaceful protests are prevented, jails are crammed with political detainees, detention without charge is common, phones are partially blocked, the press censored and reporters beaten, broadcasters muffled and curfews imposed. Those who complain too fiercely online are locked away. The authorities in Kashmir and Delhi say these measures are temporary. They say that to prevent abuses, the police are now being trained and re-equipped. (Soldiers, for the most part, have been kept away from street clashes.) Omar Abdullah, the chief minister of Kashmir, says that police officers may even be prosecuted for misdeeds. But the repression persists, and risks causing ever greater resentment and instability.

Seen from Delhi the uprising appears manageable. Kashmiris have dropped their guns and shooed away Islamic insurgents who a decade or so ago skulked in the postcard-perfect mountains. The presence of a 350,000-strong Indian security force (some say the number is much higher), amid a population of just 11m, has also kept the armed militants at bay.

It helps India that Pakistan, the eternal trouble-stirrer in Kashmir, is in disarray. And India takes heart from the weakness and fractiousness of local leaders in Srinagar. Many have been bought off with well-paid posts, or jailed, or both. Moderates who attempt to reunite the parts have been locked up or worse (one was shot and paralysed by a mystery assailant). Some of the highest-profile ones, such as the stone-pelters' elderly icon, Syed Ali Shah Geelani, are kept under house-arrest.

Sticks and stones

Some Kashmiris darkly hint of picking up guns again, but the local leaders have no appetite for large-scale violence, fearful of a return to the carnage of the 1990s when thousands died each year. Instead they encourage low-casualty options such as throwing stones and prolonged stay-at-homes (*hartals).*

If such gestures have a goal, it is to gain attention. Young Kashmiris expose themselves to Indian bullets, hoping to draw compassionate outsiders-Barack Obama perhaps-to put pressure on India. Yet the strategy has so far achieved little. Outsiders, especially Western democracies once so cocksure and outspoken on human rights, now fret that their power is ebbing eastward. The Kashmiri separatists who suggest that "you people" or "Britain and America" could somehow chide India into a less repressive stance in Kashmir do not appreciate how eager Westerners are to court India as an ally.

The Kashmiris who have died in recent months have at least embarrassed India, which may yet respond by moderating the repression. But the radical separatists, who define *azadi*, the Kashmiri word for freedom, as outright independence from India-or even, for a shrinking number, incorporation with Pakistan-will not be placated. And nor will India consider letting Kashmir go.

Time appears to be on India's side. With each passing year it will have more resources to throw north. The local economy, at least until recently, had been chugging along quite well, thanks to horticulture, tourism, funds from central India and heavy spending by the armed forces. A few Kashmiri expats had started returning and investing before the uprising in 2010. Development in itself will not fix Kashmir. But faster economic growth could at least prove a useful balm.

The government has made some political gestures. In September, an all-party delegation of Indian politicians-including even the Hindu-nationalist Bharatiya Janata Party-visited Kashmir. India's prime minister, Manmohan Singh, made reassuring comments about addressing grievances there. The government in Delhi also pledged to send a high-ranking team of interlocutors to prepare a series of reports on Kashmir after consulting all sides in the conflict. A three-person team was eventually named in October.

These initiatives have started to persuade some in Kashmir of progress. But the team is made up merely of two academics and a journalist, people who carry no political weight. Nor does it help that they have already fallen into public squabbling. Kashmiris have watched their saga wearily. Some leaders have refused to meet the delegates, dismissing them as a joke.

Conspiracy theorists in Srinagar, the capital of Indian-controlled Kashmir, accuse India's generals of sabotaging politicians' peace efforts because the armed forces reap big rewards in the territory. More likely the central government in Delhi, run by the Congress party, is shy of Indian nationalists, who complain whenever concessions are considered for Kashmir. In October, a writer, Arundhati Roy, suggested Kashmiris might have legitimate complaints, and that Pakistan might have a justifiable interest in Kashmir. Hindu nationalists demanded she be tried for sedition.

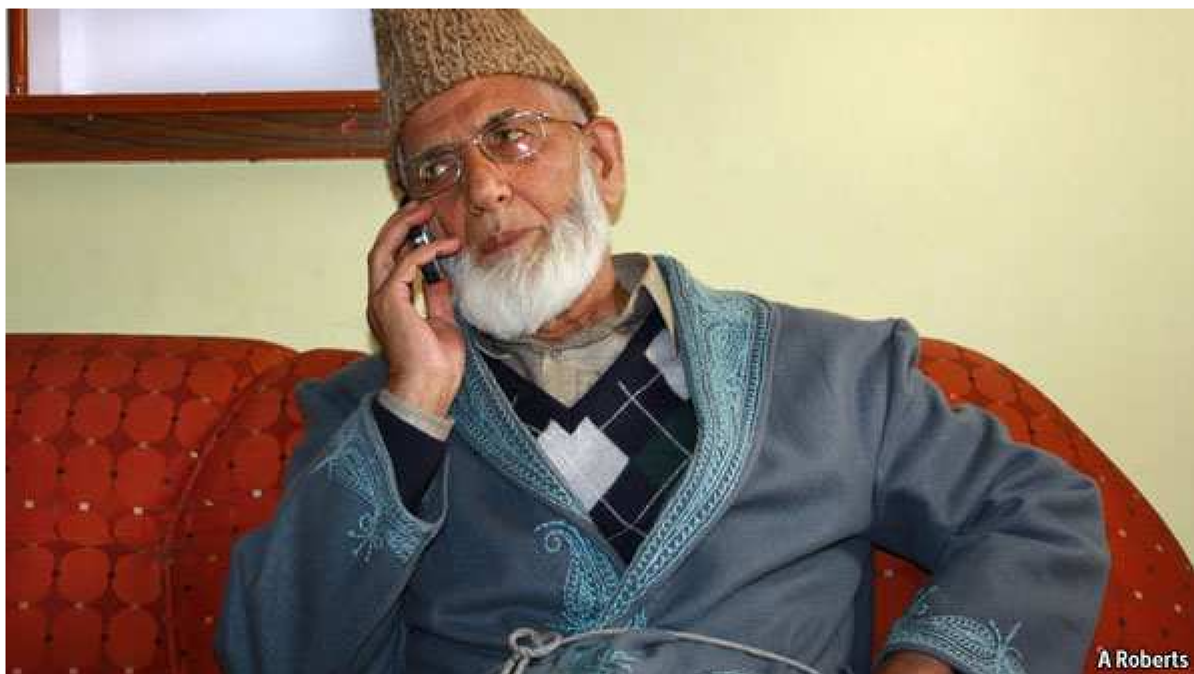
So Kashmir is left to smoulder, with dire consequences for its citizens. A visit to Srinagar's psychiatric hospital shows throngs of patients, crowding around its overworked chief consultant. They relate a dismal roll-call of anxiety, stress, depression, alcohol and opiate addictions, child abuse and suicides. As Dr Mushtaq Margoob takes a break to munch a chapati and sip milky tea, he talks of Kashmir as a broken society. Some patients become destructive, he says, describing a mother who watched her son shot dead on the street and who then went on to burn down her own home and that of her neighbours.

The most damaged, he concludes, are the youngest. "We see a collective anger, an aggressive, traumatised generation", he says. The head of a think-tank talks of 600,000 young, educated, Kashmiri adults who are now jobless, waiting for some sort of guidance. Religious and political leaders fret that their youngest followers, teenagers, excited by the stone-pelters, are increasingly attracted by more radical ideas.

Militancy stirs

Worryingly, the youngsters talk openly of religious antagonism. Some ask why Kashmir's Muslims do not turn on Hindus (many Hindu pilgrims visit a sacred spot in the state, but have so far been left unmolested) to seek communal revenge for repression. The head of a student movement, a man who has spent most of his adult life in prison and who is now on the run and hiding from police in the backstreets of Srinagar, warns of infuriated youngsters turning to a "battle of extinction" in which "others, not only Kashmiris, will be killed".

As long as political leaders exist to channel, and moderate, the rage of the stone-pelters and innocent victims, such excited talk might be discounted. Mr Geelani, a frail octogenarian, is one such. He condemns India as "an occupying imperialist power", but he is largely a moderating influence. He opposes any return to arms. He supports the pelters' goals, but not their methods. His practical demands, for the repeal of draconian laws, the end of police abuse and talks with the central government, are hardly off the wall.



Geelani awaits the call from Delhi

But Mr Geelani's influence is waning, along with his health. It is doubtful that anyone among a handful of potential successors could command as much local respect. The alternative could be more troubling. Some observers fear that as India succeeds in neutering Kashmir's nationalist politicians, religious groups will flourish.

A Wahhabi welfare organisation, al Hadith, which almost certainly benefits from generous Saudi funds, is quietly emerging as a powerful welfare, religious and cultural force. As others bicker, it has gone about building community centres, mosques, primary and secondary schools and clinics. It is seeking permission to set up a university. Its genial leaders deny being extremists, pointing to their love of education and computers; they say that in the planned university, women and non-Muslims will be enrolled too.

As for claims that the group, which says it has 1.5m members, is spreading conservative values in a territory long known for its Muslims' religious tolerance, one leader concedes only a "little, little component of cultural shifting". A few more women are wearing burqas, or staying at home, than did in the past. More Arab-style mosques are springing up.

The non-Muslim minority in Kashmir is much less sanguine, seeing al Hadith as a proxy for Saudi interests and a powerful example of the spreading "pan-Islamisation" of Kashmir. They fret that ties may exist to Wahhabis elsewhere, including terrorists, and warn that a powerful new force is rising in the territory, filling a vacuum created by India. Just now their concerns seem overblown. But the government in Delhi would be wrong to think of Kashmir as yesterday's problem.

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Nigeria's restive delta

The president is threatened by a fraying amnesty

Dec 29th 2010 | *OBUBRA* | from PRINT EDITION

Former militants in the oil-rich Niger Delta could go back to war-and dent President Goodluck Jonathan's chance of election in April



Correction to this article

AT A disused military compound in Obubra, north of Nigeria's south-eastern city of Calabar, hundreds of men in white baseball caps emblazoned with the word "amnesty" are taking an unusual exam. They are being tested on peace and love. "If you dey [are] together for one place and you get food to eat, you must share it together," explains Okotie Daniel, a student, to an oral examiner; though 29, he is unable to complete the written test. It is on the likes of Mr Daniel that Goodluck Jonathan, Nigeria's president, depends for enhancing his reputation as a peacemaker, which could help him to clinch victory in the presidential election due on April 9th.

Mr Daniel and his classmates (some of them pictured above) are former militants from Nigeria's Niger Delta, which lies above Africa's biggest oil and gas reserves. In a campaign for a larger share of the vast revenues from these resources, local gangs in recent years have blown up foreign oil groups' pipelines and kidnapped expatriate staff. The consequent drastic drop in oil output has hit energy giants such as Royal Dutch Shell and America's ExxonMobil that operate in the region, as well as customers at petrol pumps around the world.

For most of 2010 an edgy calm prevailed. Thousands of insurgents agreed to a three-stage programme by laying down their arms, attending a "non-violence course" in Obubra, and doing vocational training as part of an amnesty that began 18 months ago. Yet, even as this batch of former fighters took their exams in December, Nigeria's army was battling fresh militant camps in nearby Delta state.

Depressingly for Mr Jonathan, new rebel leaders have been springing up to replace an old guard bought off in the amnesty of 2009. The Movement for the Emancipation of the Niger Delta (MEND), one of the area's main armed groups, was supposed to have been part of the deal. But no sooner had its leaders signed up than new ones came to the fore who rejected the amnesty. MEND declared over Christmas that it would consider accepting a new amnesty in 2011, but it has a habit of changing its mind; factions within MEND often dissent from the leadership's view.

One recalcitrant figure is Tamunotonye Kuna, known as Commander Obese. He is accused of masterminding the abduction of 19 oil and construction workers in separate attacks on offshore oil-rigs in November. He has since been arrested and the hostages released. But John Togo, another new rejectionist rebel, is proving harder to catch. He is the suspected leader of the Niger Delta Liberation Force, another gang, which has claimed responsibility for a rash of pipeline attacks in recent weeks.



The ability of Mr Jonathan to contain these attacks and preserve the amnesty is a big part of his bid to win the presidential election. A former vice-president under President Umaru Yar'Adua, who died last May, Mr Jonathan hails from the Delta region and has vowed to halt the conflict in his backyard. The violence is still well below its peak, and oil is being produced at a respectable 2.1m barrels a day: below the 2.5m reached at its zenith in 2005, but well above its nadir of 1.7m in mid-2009. If the skirmishes spread or get out of hand, however, the peace deal could unravel and oil production could dive again.

Few Delta residents and observers have been optimistic about the amnesty. But some now think the peace deal may be making matters worse by creating a warped career path that rewards the insurgents without bringing real stability. Militants who catch the government's attention and then agree to drop their guns get monthly stipends of 65,000 naira ($423), nearly nine times the official minimum wage. Commanders in charge of distributing these stipends often pocket the cash, earning even more for themselves while seeking to keep their hold over the fighters, who may be tempted to revert to robbery and violence in the creeks. "A crucial part of [the scheme] is breaking the militant groups' structure," says Austin Onuoha, a private consultant to the government. "But how has anything really changed?"

The amnesty follows a pattern of similar smaller deals in the past that have failed to have a lasting effect. Mr Kuna used to work under Farah Dagogo, a MEND commander who has accepted this amnesty. Mr Dagogo likewise came to the fore after his boss was bought off in a previous deal. The life of a high-rolling militant is far more lucrative than the few jobs on offer. Many gangs are now motivated more by fat profits from kidnapping for ransom and oil thefts from sabotaged pipelines than by political ideals. Tales abound of fridges in the creeks stocked with champagne.

Students in Obubra seem genuinely relieved to have left the guns and swamps behind. They were mostly lowly militants unable to find any other work. But they are already worrying about how they will find jobs once the scheme ends. Despite Nigeria's wealth of natural resources, almost half of the young in cities are jobless, according to official data. And the environmental damage wreaked by 50 years of oil production has wiped out many of the Delta's rural jobs, such as farming and fishing. Across Nigeria, 80% of the people earn less than $2 a day.

As the polls approach, jobless youths may be forced to reconsider their traditional role as hired thugs for local politicians, which often becomes a route back to lawless militancy. Allen Onyema, who runs the non-violence course, says a long-term plan for ex-militants is vital. "Politicians are ready to recruit them...election year is coming," he says. "Even while at Obubra, the boys are receiving calls to do one thing or another. Sometimes they play it on speaker-phone for us to hear." It is a message Mr Jonathan could well heed too.

Correction: We originally translated the pidgin English "dey" as "die". It in fact means "are" or "be". This was corrected on December 30th 2010.

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Kenya and the international court

Will they go quietly?

A coalition of the accused may try to block the International Criminal Court



Uhuru ponders the price of freedom

THE chief prosecutor of the International Criminal Court (ICC), Luis Moreno-Ocampo, has rattled a chunk of Kenya's political establishment by formally demanding that some of its most powerful people be summoned to The Hague to answer for crimes against humanity after a ruinous election at the end of 2007. But this has delighted most ordinary Kenyans. Mr Moreno-Ocampo charges that incitement by politicians and civil servants directly led to the deaths of 1,200 Kenyans and the displacement of at least 300,000.

The biggest names on Mr Moreno-Ocampo's list of six are Uhuru Kenyatta, the minister of finance and a son of the country's founding president, Jomo Kenyatta, and William Ruto, a minister for higher education, who is at present suspended pending separate corruption charges. Mr Kenyatta is a Kikuyu; Mr Ruto's group is the Kalenjin, a cluster of tribes from the Rift Valley to which Kenya's second president, Daniel arap Moi, belongs. Mr Moreno-Ocampo accuses Mr Kenyatta of organising and paying a Kikuyu criminal gang, the Mungiki, to kill, rape, and bludgeon people from opposing tribes. Mr Ruto, for his part, is said to have been the overlord of Kalenjin warriors in the Rift, where they torched Kikuyu communities, murdering innocents as they went.

A bigger surprise was the ICC's decision to go after Francis Muthaura, Kenya's most senior civil servant. As secretary to the cabinet, the mellifluous Mr Muthaura may well be the closest adviser to President Mwai Kibaki, a Kikuyu. Mr Muthaura is a Meru, a group closely related to the Kikuyu. Mr Kibaki will find it hard now to remain aloof from the process. Publicly, he has spoken of Kenya's support for the ICC. But his aides are scheming with Mr Ruto, hitherto their sworn enemy, to remove Kenya's signature from the Rome treaty that set up the court in the first place. A bill to do just that has already been passed by Parliament. Hectic discussions about how to snub the ICC have apparently been going on behind the scenes in Kenyan government circles since 2008.

Mr Kenyatta has quite a lot of support among his own tribe; among the Kalenjin, Mr Ruto's is even stronger. But it will not be easy for a "coalition of the accused" to fend off the international court, of which most Kenyans still approve. A recent survey suggests that 73% of them expect the accused to be tried before it. Most of Kenya's media have been sympathetic to Mr Moreno-Ocampo. A statement this week in favour of the ICC by the head of the Catholic church in Kenya, Cardinal John Njue, indicates a hardening attitude outside the political cabal; in the past, the churchman had been a close ally of Mr Kibaki. Nor is the ICC likely to be patient: should the accused stir up trouble in their efforts to stymie a trial, says Mr Moreno-Ocampo, an international arrest warrant will be issued. As things stand, they have been asked to come to The Hague of their own accord.

And then there is the prime minister, Raila Odinga, still the nearly-man of Kenyan politics, whose Luo group felt most bitter that its leader was prevented by fiddles from winning the top job after the recent election. No one was called to

answer for the brutal ethnic cleansing of Kikuyus that went on in his own political heartland in western Kenya. That oversight may cause resentment among other Kenyans, especially Kikuyus and Kalenjin, in the rest of the country.

So far, Mr Odinga has said Kenya must abide by the ICC. The only price he might accept for turning against it is probably too steep for those due to go on trial: a tacit understanding by them that, in contrast to what happened in 2007, they would ensure he wins the presidency in 2012.

Iraq's new government

A tricky cocktail

Dec 29th 2010 | *BAGHDAD* | from PRINT EDITION

Nobody knows how the long-awaited administration will actually work

AFTER nine rudderless months, Iraq's parliament finally, on December 21st, endorsed a new government. It is not clear, however, whether Nuri al-Maliki, who has retained his post as prime minister, will be able to provide Iraq with the things it most needs: physical security; government stability; decent public services, especially electricity; less corruption; and a growing economy to create jobs for millions of resentful Iraqis.

It may be some time before a new balance of power becomes evident. Mr Maliki was widely blamed, by his fellow majority Shias as well as by Iraq's Sunni Arab and Kurdish minorities, for accumulating too much personal clout in his past four years in the job. The new deal is meant to bring checks and balances. The Sunnis have won some beefy ministries. But if they still feel left out of real decision-making, Iraq's stability will continue to be shaky.

Posts have been awarded largely along ethnic and sectarian lines. The 33 cabinet jobs so far allotted have been roughly split between a Shia alliance headed by Mr Maliki, a largely Sunni block, known as Iraqiya, headed by a secular Shia, Iyad Allawi, and a Kurdish alliance which has held onto the foreign ministry, still under Hoshyar Zebari, and the presidency, retained by Jalal Talabani. Parliament's agenda-setting speaker is Osama al-Nujaifi, a powerful Sunni from the still-violent city of Mosul. The defence minister, yet to be named, is expected to be another Sunni.

Mr Allawi, whose Iraqiya front won 91 seats to Mr Maliki's 89 in the 325-strong parliament, has endorsed the new government. But much will depend on whether a strategic council which he has been assigned to head will have real heft or a merely advisory role that Mr Maliki may choose to ignore. As Mr Maliki widened his coalition in the past few months, Mr Allawi frequently threatened to walk away from negotiations altogether. Had he rejected a deal, the division between Shias and Sunnis would have become dangerously wide. His co-operation is crucial.

There has been further progress towards ending some niggling quarrels. Three Iraqiya parliamentarians, barred from taking office by a commission which can veto people with alleged links to Saddam Hussein's regime, have been reprieved. One of them, the vocal and popular Saleh al-Mutlaq, has become one of three deputy prime ministers, along with Roj Nuri Shawis, a Kurd, and Hussein al-Shahristani, the powerful former oil minister, who is close to Mr Maliki.

Some say Mr Shahristani's departure from the oil ministry could herald a breakthrough in long-stalled negotiations over the control of oil and gas in the Kurds' autonomous region. The new oil minister, Abdulkarim Luabi, is friendlier to the Kurdish authorities, who want to export the hydrocarbons found in their area and reap more of the profits directly rather than send them first to Baghdad. This is unlikely to happen, but since Mr Maliki is indebted to the Kurds for their continuing political support, a compromise may be found.

The biggest worry is over the failure so far to name three "power ministers" to run interior, defence and national security. Until those posts have been allotted, Mr Maliki will hold them himself. He has already shown a tendency to use the police and army for his own political ends, so the sooner they are dished out the better. In any event, it is vital for Iraq's future that they fall under civilian control and do not become political fiefs. The followers of Muqtada al-Sadr, a populist Shia cleric backed by powerful militias who have committed sectarian atrocities in the past, are keen that their lot wins one of

those ministries. But if that happened, many Sunnis and quite a few secular-minded Shias would be scared. Mr Maliki hopes that the Sadrists will instead be content with some of Iraq's key service ministries.

So the new government has not quite yet been settled. And no one knows, once it is finalised, if it will stick together.

Pollution in Tehran

The smoggiest of all capitals

Dec 29th 2010 | from PRINT EDITION

A not-so-divine cloud enwraps Iran's capital



Smothered in a cloud doubtless created by the CIA

TRAVELLERS flying into Tehran were recently denied their usual view of the sprawling metropolis and its majestic mountain backdrop. Instead they found themselves staring into a thick brown haze. Somewhere down in the murk a lot of old people and asthmatics were dying.

Shielded from the cleansing winds by the Alborz massif, teeming with cars and encircled by cement factories and power stations, Tehran has long been notorious for pollution, particularly during dry winters of still air such as this year's. But air quality has recently been worse, for longer, than ever before. A Tehran city councillor recently claimed for his capital nothing less than a "new world record" in air pollution.

A leaked statistic from the health ministry said that 3,600 people had died from air pollution in Tehran in the first nine months of the year. At the peak of the latest crisis, hospital admissions were said to have risen by at least a third and the corridors of local clinics were full of wheezing old people and pregnant women waiting for oxygen.

For a while, the government of President Mahmoud Ahmadinejad gave an impression of concern. Schools were closed and the number of cars permitted to move around the city cut by half, while crop sprayers soared over the city centre in an effort to thin the aerial mush. Inspectors duly detected a slight improvement in air quality, but complaints from shopkeepers and bazaar traders soon became too loud to ignore, and the car restrictions were lifted. Three days later, on December 18th, public attention was distracted by Mr Ahmadinejad's controversial subsidy reforms, which have sent the price of petrol and bread rocketing and brought the police onto the streets in case of disturbances.

The authorities insist they are determined to reduce the capital's pollution. "This", retorts a Tehrani, "is what they say every winter, and nothing gets done." For a city serving 13m people, public transport is inadequate and the government twitchy about anything smacking of civil society. As a result, the country has so far had no effective green movement (as opposed to the opposition Green Movement, led by Mir Hosein Mousavi, who is widely believed to have defeated Mr Ahmadinejad in the presidential election of June 2009).

Official attitudes to cars are contradictory. On the one hand, Tehranis are encouraged to use the capital's small and overloaded underground railway. On the other, the government, with its big stake in the car industry, relentlessly promotes car sales, even in Tehran, which already has 3.5m of them.

Ettelaat, a newspaper close to the establishment, recently suggested that the poor quality of Iranian-made petrol may explain the recent increase in pollution. That was a gaffe, for Iran's declared self-sufficiency in petrol production has also been trumpeted as a source of national pride, which would be pricked if it were blamed for the deaths of hundreds of citizens. The next day, *Ettelaat* was contrite. "The great success of the sons of the people in producing high-quality petrol" ran its headline, over a picture of an Iranian refinery purring away under a flawless blue sky.

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The Khodorkovsky verdict

Doing things the Putin way

Dec 29th 2010 | *MOSCOW* | from PRINT EDITION

The system, constructed by Vladimir Putin, that put Mikhail Khodorkovsky in prison keeps him there



NOBODY expected Mikhail Khodorkovsky and Platon Lebedev, the former controlling shareholders of the Yukos oil company, to be acquitted, just as nobody believed they were guilty of stealing oil and laundering the proceeds. But there was some hope, however irrational, that Viktor Danilkin, the judge presiding over their trial, might find the courage to resist political pressure and deliver justice.

It was not to be. On December 27th, after a 22-month trial, Mr Danilkin rose to read his verdict: "The court has established that as part of an organised-crime group..." The word "Guilty" immediately spread among the journalists and supporters barred from the court. It sounded like a verdict on the system that had put Mr Khodorkovsky and Mr Lebedev in prison in 2003 and that had orchestrated a second trial to keep them there.

The political nature of the case could not have been made more obvious in the closing days of the trial. The reading of the verdict was supposed to start on December 15th, but was postponed without explanation. The next day Vladimir Putin, Russia's prime minister, delivered his own verdict: "A thief must stay in jail," he said during a phone-in session with the Russian people, borrowing a line uttered by a tough, leather-clad cop in a popular Soviet-era thriller.

"We need to proceed from the fact that Mr Khodorkovsky's crime has been proven in court," Mr Putin continued. A spokesman said he was referring to the first case against the tycoon. But the mingling of the tenses sounded like an instruction to the judge. (In Stalin's show trials a guilty verdict was delivered first by Stalin and the party, and only then confirmed by the court.) Mr Putin also (again) accused Mr Khodorkovsky of murder.

Moving the verdict to December 27th, when the West was in a Christmas lull and Russians were busy with new-year shopping, looked designed to bury it. As if to limit the damage further, the court also kept most journalists out and stopped a video transmission of the trial. This did not prevent a crowd of hundreds outside the court from shouting "freedom" (for Mr Khodorkovsky) and "shame" (to the riot police dragging some of them away).

Hillary Clinton, America's secretary of state, and some of her European counterparts have spoken about the selective application of justice in Russia. "Attempts to exert pressure on the court are unacceptable," Russia's foreign ministry protested. Yet several Russian observers have said that the second trial was not about the selective application of justice (that had happened in 2003, when the pair were arrested), but about the selective application of injustice. Unlike the first sentence, which expires in 2011, the second conviction has no legitimacy among the Russian elite.

In the first trial the defendants were convicted of avoiding taxes on the sale of Yukos's oil. That was contradicted in the second trial by the claim they stole much of that same oil. The charges may be surreal, but the sentence will be real enough. Prosecutors have asked for a maximum 14-year prison term (whether this includes the seven years the two men have already served is unclear). Sentencing may not take place until December 31st, when Russia shuts down for a ten-day holiday.

What is clear is that it will be determined by the political needs of Mr Putin rather than by the requirements of the law. Mr Khodorkovsky's captivity and the state's expropriation of Yukos form a linchpin of the political system constructed by Mr Putin. And to judge by his recent activity, he has no plans to retire soon.

Putin steps forward

In the past few weeks observers have been given a glimpse of Mr Putin's new political themes. After the murder in Moscow of a football fan by a man from Russia's north Caucasus republic of Dagestan, nationalist riots broke out under the Kremlin walls. Several of the men detained for the murder-although not the prime suspect-were later released by the police (for a bribe, some say), infuriating the fans. Their protest quickly acquired a racist tinge, and the mob turned on people from the north Caucasus, who are formally Russian citizens but have long ceased to be treated as such.

The sight of thousands of men shouting nationalist slogans and threatening ethnic conflict in the heart of Moscow spooked Russia's elite. Dmitry Medvedev, Russia's president, made a few statements, but Mr Putin at first kept his silence.

Then, on December 21st, Mr Putin met with some of the fans and laid a wreath on the grave of their murdered friend. This gesture spoke louder than any of the prime minister's words about the need to respect different ethnic traditions. (Mr Putin said nothing when Anastasia Baburova, a 25-year-old anti-fascist activist, was killed in broad daylight two years ago.) Mr Putin also pledged to toughen registration rules for internal migrants in Moscow and other large Russian cities-a longstanding demand of far-right groups.

The Kremlin has long flirted with nationalists, sponsoring thuggish youth groups such as Nashi (Ours), and allowing marches in Moscow. But this is the first time Mr Putin has exploited nationalist themes so blatantly. He has always used threatening events in Russia as an excuse to consolidate power. There is no reason why he should change his tactics in 2011-the year when the name of Russia's next president will become clear.

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Germany's Free Democratic Party

Feeling unwelle

Dec 29th 2010 | *BERLIN* | from PRINT EDITION

The leader of a junior coalition partner comes under pressure to quit

NORMALLY, it takes a scandal to cause a political humbling as abrupt as the one that has befallen Guido Westerwelle. In September 2009 he led his Free Democratic Party (FDP) to its best-ever result, 14.6% of the vote, in Germany's federal elections. The party re-entered government, after 11 years in opposition, as a cocky junior partner to Angela Merkel's Christian Democratic Union (CDU). Mr Westerwelle became foreign minister and Mrs Merkel's deputy as vice-chancellor.



Things look far bleaker today. The FDP's support in polls has plunged below 5%, the level needed to win seats in the Bundestag (see chart). Mr Westerwelle is Germany's least-loved politician. He is a "millstone" around the party's neck, laments the top FDP candidate in Rhineland-Palatinate, one of seven German states that will hold elections in 2011. Pressure is building on Mr Westerwelle to quit, as party leader if not as foreign minister. At the FDP's annual "three kings meeting" in Stuttgart on January 6th he will be fighting for his political life.

Mr Westerwelle's skills as a political battering-ram did not equip him for statesmanship. The FDP was expected to bring a liberal backbone and economic nous to the coalition, correcting the CDU's leftward drift during its earlier partnership with the Social Democrats. Instead, it presented a caricature of these virtues. Mr Westerwelle demanded tax cuts when Germans were more worried about the budget deficit. He issued strident pronouncements on the welfare state (it puts Germany in peril of "late Roman decadence," he said) but seemed adrift in the nuanced world of diplomacy. Americans' unflattering verdict was WikiLeaked, as was the news that an FDP mole had kept them abreast of coalition negotiations with the CDU. Mr Westerwelle's handling of that affair did not impress the party.

The FDP's travails are not an immediate threat to the coalition. Up to a point, Mrs Merkel may welcome them: the FDP's 2009 triumph came largely at the CDU's expense. But she worries about what her coalition partner may do to avoid parliamentary extinction. "Stronger parties are readier to make compromises," said the CDU's general secretary, Hermann Grohe.

Dumping Mr Westerwelle looks like a way out but may not be. Credible successors are few. Rainer Bruderle, the 65-year-old economy minister, earned kudos for defending liberal principles (by opposing a rescue of carmaker Opel, for example). But his election would hardly look like rejuvenation. Christian Lindner, the clever general secretary, is young for the top job and does not look ready to commit parricide. The top national leaders still back Mr Westerwelle. He has "shaped the party so closely around himself that it has an identity problem," says Gero Neugebauer, a political scientist at Berlin's Free University.

Mr Westerwelle hopes to rehabilitate himself. He led Germany's successful campaign to win a seat on the UN Security Council, earning praise for his ministerial work, and has taken the lead in calling for the withdrawal of German troops from Afghanistan beginning in 2011. A new party programme, due in 2012, may give supporters a firmer sense of what the FDP stands for. "I'm not the sort who leaves the deck in a storm," Mr Westerwelle has declared. He is up for re-

election as party chairman in May. By then four state elections will have taken place. If they are disastrous for the FDP, he could be tossed overboard.

German taxes

Not a mere bagatelle

Dec 29th 2010 | *BERLIN* | from PRINT EDITION

New-year revellers will have to pay more to celebrate with German bubbly



Clink, clink, another tax

BUY the prosecco, it's cheaper, advises Alexander Jeschke, proprietor of the Vinifera wine shop on Berlin's Klausenerplatz. Italian prosecco does not pay the *Schaumweinsteuer* ("sparkling-wine tax") of euro1.02 ($1.34) a bottle. German *Sekt* does. Prosecco fizzes rather than foams and so, to the chagrin of German bubbly-makers, is deemed to be a tax-free *Perlwein*, not a *Schaumwein*. The tax is a burden for producers and distorts the market, grumbles Ralf Peter Muller, head of the association of *Sekt* makers.

The *Schaumweinsteuer* belongs to Germany's arsenal of irksome "bagatelle taxes", many of which are holdovers from earlier eras. It was first levied in 1902 as a way of getting the rich to help pay for the construction of the Kaiser's navy, putting it among the lesser-known causes of the first world war. (Ordinary folk were doing their part by drinking beer.) It was scrapped in 1933 to stimulate the economy but Hitler brought it back, again with martial intent, six years later.

The *Schaumweinsteuer* is a relative latecomer. The coffee tax (now euro2.19 a kilo for roast coffee, euro4.78 for instant) was pioneered in the 18th century by Prussia's Frederick the Great, who saw the beverage as a challenger to beer, a money-spinner for the state. Perhaps more worrying to the monarch, coffee threatened to stimulate ideas that alcohol could be counted on to dull. The import and roasting of coffee became state monopolies; royal sniffers sought out rogue roasters. Today's hunt tax, levied by some municipalities, is a distant relative of the 1,200-year-old *Jagdregal*, which reserved the bag, or part of it, for the lord.

Stefan Ruppert, a scholar at the Max Planck Institute for European Legal History and a member of the Bundestag from the Free Democratic Party, sees bagatelle taxes as the handiwork of an "absolutist state", eager to prod behaviour as well as to raise money. Liberals pushed back in the 19th century but Otto von Bismarck's alliance with conservative parties after

1878 meant a return to meddling. Bagatelle taxes often come atop others (value-added tax on sparkling wine is 19%). Some, like the "second-apartment tax", are so costly to administer they may barely be worth collecting. Hunters insist they provide a public service and should not be taxed further. In Rhineland-Palatinate they have stopped disposing of roadkill in protest.

But bagatelle taxes are not going away. The federal government gulped down nearly euro1.5 billion in revenue from sparkling wine and coffee in 2009. Deficit-ridden municipalities are growing more inventive as their desperation increases. A euro20 monthly levy on tanning beds in Essen, in the Ruhr region, should bring in euro150,000 a year. Luckau, in Brandenburg, tried to levy a tax on wind turbines but was rebuffed by the eastern state's government. Several cities tax "sexual enjoyment", and more plan to. Cologne raises euro750,000 a year from prostitutes, pornography and sex fairs. Tax on sex in the city looks like a hit, with mayors at least.

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Religion in Turkey

Diyanet effect

Dec 29th 2010 | *ISTANBUL* | from PRINT EDITION

How liberal is the new head of Turkey's religious-affairs body?



Sucu is splendid in stripes

WAS it the result of an Islamist inquisition? For many the sacking last week of Ayse Sucu (pictured), the head of the women's centre of Turkey's state-run religious-affairs directorate (Diyanet), amounted to nothing less. With her loosely worn headscarf and progressive views, Mrs Sucu had become an emblem for Diyanet as it launched a series of initiatives to advance women's rights in Turkey. Her dismissal prompted the resignation of all 28 women working in her centre.

Pro-secular newspapers have cast the affair as a further twist in the battle between western-minded Turks and the mildly Islamist ruling Justice and Development (AK) party. Some blame Diyanet's new boss, Mehmet Gormez. Unlike his predecessor, Mr Gormez is said to espouse rigid views on the headscarf. And in a homily penned during the Muslim festival of Eid al-Adha, he derided activists campaigning against the ritual slaughter of millions of sheep. All of this has sharpened fears that, with AK's blessing, Mr Gormez will steer Diyanet, which is responsible for managing Turkey's preachers and mosques, in a conservative direction.

As ever in Turkey's mix of official secularism and popular piety, the truth is more complex. For one, Mr Gormez is the brains behind an ambitious project to reinterpret the Hadith, the most sacred text in Islam after the Koran. A collection of

thousands of utterances said to have been pronounced by the Prophet Muhammad, the Hadith is the main guide for Muslims in interpreting the Koran. Mr Gormez's goal is to weed out those unsavoury texts (on restricting women's freedoms, for instance) that, in Mr Gormez's words, obscure the original values of Islam. Outraged purists have accused him of "degenerating" Islam and fought to block his promotion. Sources close to Mr Gormez say that the row shows the idea that he engineered Mrs Sucu's removal because of her views is ridiculous. He has even, they add, been known to prepare his wife's breakfast.

The fuss over Mrs Sucu has obscured a far more controversial change to Diyanet. Until recently it was a semi-autonomous body. Now it is directly attached to the government, leaving it vulnerable to political manipulation. Will the revamped Diyanet offer seats to Turkey's non-Muslim minorities? What of the millions of Alevis who neither fast during Ramadan nor pray in mosques? Such questions will be the real test of Mr Gormez's liberalism.

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Slovakia and the euro

Bratislava's plan B

Dec 29th 2010 | *BRATISLAVA* | from PRINT EDITION

Slovakia believes in the euro zone's rules. Not a popular stance

SHEDDING a bad name often takes years of sweat. But when Slovakia capped a decade of economic recovery by adopting the euro in January 2009, it seemed to complete its transformation from what Madeleine Albright, then America's secretary of state, called a "black hole in the middle of Europe" into a trusted European partner.

Now Slovakia's economic policy has again been riling policymakers in Brussels and Berlin. The reason this time is not the sleaze and cronyism of the 1990s, but Slovakia's prickly principles. The country refused to join in the euro80 billion ($105 billion) euro-zone contribution to the bail-out of Greece. Irked by what they consider to be the euro zone's habit of rewarding indigence and penalising thrift, and concerned about what they see as a drift towards fiscal union, some senior Slovaks are even threatening to dump the common currency altogether.

The speaker of parliament, Richard Sulik, who also leads the free-market Freedom and Solidarity party, wrote in a newspaper article: "Since we are too small...to influence the actions of the European Union, we must at least protect values that people living in Slovakia have created." He proposed that Slovakia stops "blindly trusting" the euro zone's leaders and seeks a "plan B" instead. "I remember very well how the strict guardians of the euro...buggered about [Slovak finance ministers] Miklos and Pociatek. We endured it all, with silent approval even, convinced that we were joining a club that abides by its own rules."

The prime minister, Iveta Radicova, hurriedly reassured her European partners about Slovakia's continued commitment to the single currency. But euro-enthusiasm is ebbing fast, even in her SDKU party, which spearheaded the country's European integration. Though Ms Radicova has agreed to Slovakia's participation in the broader euro440 billion euro-zone bail-out fund, she also wants new rules to allow countries to go bankrupt, with the private sector taking its share of the pain. Free-market principles can be irritating, especially when people start taking them literally.

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Charlemagne

Baltic bet

Dec 29th 2010 | from PRINT EDITION

Why fiscally prudent Estonia wants to join the troubled euro



IT TAKES only a brief visit to the Bank of Estonia's small basement museum to grasp what turbulent decades the Baltic states have endured. This corner of Europe's "bloodlands" between Russia and Germany saw a bewildering succession of currencies: roubles (tsarist and Soviet), marks (imperial and Nazi) and, among these, a cherished era of Estonian money, from 1919 to 1940. After the break-up of the Soviet Union, the kroon was restored in 1992, a symbol of independence regained.

Now the kroon, too, is destined to become a museum piece, though this time its abolition is voluntary. On January 1st Estonia adopts the euro, with mixed emotions among the numismatists in the museum shop. Most Estonians accept the government's view that giving up the kroon will strengthen Estonia economically and politically. Pegged from the outset to the D-mark and then the euro, the kroon has hardly been independent. Abandoning it, say ministers, will end speculation about devaluation, reduce transaction costs, lower interest rates and boost investment.

To many Estonians, the euro also means security. For this small country of just 1.3m people, the single currency is a further step towards "Europe" and away from Russia. With its membership of NATO, the EU, the Schengen free-movement zone and now the euro, Estonia thinks of itself as one of the most integrated countries in Europe. As for the euro zone, Estonia's accession is a demonstration of faith in the single currency. Many doubt its future after a torrid year of sovereign-debt crises and bail-outs.

Beyond the symbolism, Estonia's economic experience in the past decade offers some lessons for troubled euro-area countries. First, even a small, poor, post-Soviet state in demographic decline can survive, indeed thrive, in a de-facto currency union with mighty Germany. Second, bold austerity measures can restore public finances even after a deep recession. Having shrunk by nearly 14% in 2009, the economy has rebounded and is forecast to grow by 4.4% in 2011. The newest and poorest member of the euro zone will have its smallest public-debt ratio: 8% of GDP.

For Jurgen Ligi, Estonia's finance minister, the essence of this success is discipline in maintaining balanced or surplus budgets in good times, and courage in making swift and deep cuts in bad. Estonia's accumulated reserves, and its exports, cushioned the blow. Not everything is rosy. Inflation is rising. Unemployment, which this year averaged 17.5%, is high; analysts worry about a brain-drain. Even so, qualifying for the euro is a big achievement.

How did Estonia avoid strikes and riots? Perhaps, say many, austerity is too not hard to bear after the experience of communism and late Soviet-era inflation. "Nobody would take to the streets flying the red flag," says Mr Ligi. Toomas Ilves, Estonia's president, suggests another factor: "Maybe it's our peasant mentality." Noting the thick snow outside his window, he says northern peoples are thrifty by necessity; they must save food in the summer to survive the winter.

These are partial explanations at best. Estonia now sees itself as a solidly Nordic country, yet its snow-clad neighbour, Latvia, needed an IMF-led bail-out. Luck has played a part: Estonia has been pulled up by recovery in Germany and the

Nordic countries. And unlike Latvia, it did not have to rescue failed banks; Estonia's financial institutions are foreign-owned.

Estonia's medicine may be harder for other euro-zone countries to take. With big public-sector debts (the euro-zone average is 84% of GDP), restoring fiscal health could take decades of austerity, especially if growth is sluggish. Recession and, worse, deflation, would exacerbate the debt ratio. Still, Mr Ligi is impatient with the timidity of reforms in southern Europe. "Recession is much less painful than bankruptcy," he says bluntly.

Is Estonia joining a moribund currency? The vital signs are worrying. The euro has fallen in recent months against the dollar, and bond spreads between its strongest and weakest members are still wide. The EU has kept it alive, averting, for now, default by Greece and Ireland, and the risk of another round of bank failures. The emergency room should continue to operate beyond 2013: a recent European summit agreed the wording of a treaty change to make permanent the EU's bail-out funds, worth some euro500 billion ($660 billion). The European Commission, meanwhile, is pressing ahead with plans for close monitoring of members' budgets and economies, with punishments for those that do not follow its therapy. This will help long-term prevention.

The euro in ER

But such actions have yet to relieve the danger of contagion in enfeebled countries such as Portugal, Spain and Italy. The summit declined to adopt the most frequently proposed treatments: common euro bonds to pool part of the euro zone's debt; bigger bail-out funds; or even their more flexible use, say, to extend short-term loans. So the outbreak is being fought mainly by the European Central Bank, which has been buying bonds and supplying liquidity to banks. In December it requested a near doubling of its capital, presumably to counterbalance its risky assets.

France and Germany say countries could co-ordinate their economies more closely, perhaps in social-welfare policies. But this remains vague talk. Some see hope in China's promise to buy bonds and make "investments" in troubled European countries. Yet Chinese medicine is no more than a palliative. This year's prognosis, then, is for a chronic condition punctuated by crises.

Such is the sickly currency that Estonia is joining. It says the euro's demise is unthinkable. And it is right in saying that self-help-austerity and structural reform-offers the most lasting remedy. But what if the cure kills the patient? Then Estonia will hope to inherit a share in a successor currency, perhaps a "northern euro". That makes the gamble worth taking.

Economist.com/blogs/charlemagne

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Voting reform and the coalition

There is an alternative

Dec 29th 2010 | from PRINT EDITION

The referendum on electoral reform could be the decisive political event of 2011, and perhaps of this parliament



PARLIAMENTARY arithmetic, personal compatibility and shared ideas all played their part in bringing the Conservatives and the Liberal Democrats together in a coalition government last May. But the compromise without which the deal might not have happened was the Tories' offer to hold a referendum on the Lib Dems' cherished goal of electoral reform. Scheduled for May 5th, the plebiscite will ask whether Westminster's first-past-the-post voting system (FPTP) should be replaced by the alternative-vote model (AV). It could be the most fraught single issue to face the coalition in 2011, and perhaps in the whole five-year parliament.

The proposed reform itself is fairly modest. Under FPTP, voters can only back one constituency candidate at a general election. Under AV, they would rank the contenders according to preference. If no candidate won 50% of first preferences, second and subsequent preferences would be tallied until somebody did. This is not the proportional representation of Lib Dem dreams. Indeed, some experts say AV would sometimes be less proportional than FPTP, if the make-up of the resulting parliament is measured against the first-preference votes cast for each party. Still, as the natural second-choice party for many, at least until the collapse in their support during the young life of the coalition, the Lib Dems would stand to benefit.

The internal politics of the referendum are more complex than the change itself. Were the public to endorse AV, Nick Clegg, the Lib Dem deputy prime minister, would have something important to show for his participation in a government with which many of his tribe feel increasingly uneasy. But that result could inflame the Tory right, which resents the influence of the junior branch of the coalition, and fears that AV would make it impossible for their party to govern alone again. (According to YouGov, a polling firm, at the last general election Lib Dem voters were more likely to have given their second preferences to the Labour Party than to the Tories.)

If, however, voters reject AV, the already beleaguered Lib Dem leader could face a crisis. The cause of electoral reform would be set back for years. And his party is expected to take heavy losses in local elections on the same day. Those Lib Dems who feel marginalised in the coalition, and who regard Mr Clegg as a drag on their poll ratings, might even try to remove him. A change in Lib Dem leadership would not necessarily mean the fall of the government, but it is hard to imagine anyone else working quite so well with David Cameron, the Tory prime minister.

The result of the vote is hard to predict. Opinion polls suggest it is a close race. Lib Dem supporters are overwhelmingly in favour of AV, Labour ones prefer it slightly, and Tory backers are broadly against it. This reflects the positions of the three parties' leaderships. Ed Miliband, the Labour leader and a longstanding believer in electoral reform, is campaigning for AV, along with much of his shadow cabinet. But he is tolerating dissent on this issue, and many Labour MPs (including former cabinet members) are taking the other side.

For his part, Mr Cameron opposes AV, but might not campaign against it as vigorously as many of his Tory colleagues will. Eager to prop up his troubled deputy, he will not want to be seen as instrumental in defeating AV, should it be rejected.

The circumstances of the referendum are controversial in themselves. Labour says the government should not have included the authorisation for the plebiscite in the same bill as measures to reshape parliamentary constituencies: seats are to be made more similar in population size, which will erode some of the advantage Labour derives from having lots of

small seats where relatively few votes are needed to win. Timing is another gripe. Holding the referendum on the same day as elections for the Scottish Parliament, Welsh Assembly and some English local authorities may result in differential turnouts across the country and a skewed result. Mr Clegg, who oversees constitutional reform, says it will save money.

Whichever the outcome, there will be trouble for the coalition-either from angry Tories or fed-up Lib Dems. On balance, a rejection of AV would be more destabilising. The Lib Dems have already been traumatised by the government's decision to raise the cap on university-tuition fees. They expect their poll ratings to fall into single figures. They could do badly, and perhaps even finish third, in the by-election in Oldham and Saddleworth, in north-west England, on January 13th. But these could seem like the good old days for Mr Clegg if he fails to secure even a limited kind of voting reform in May.

The biggest challenges facing the pro-AV camp are on its own side. Many of its leading lights actually prefer other voting systems: it will be hard to disguise that lack of enthusiasm during the referendum campaign. The other liability is Mr Clegg himself. The referendum will allow voters to punish him for his perceived betrayals by voting against the change.

The man whose efforts in the general election and its aftermath forced electoral reform onto the agenda will be implored to keep his distance from the cause. Perhaps nothing captures better the bizarre political turbulence of the last year, and the drama of the year to come.

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Rail fares

After the deluge, the pinch

Dec 29th 2010 | from PRINT EDITION

Britain's expensive trains are set to get even pricier

THE only thing that makes Britons grumble about their trains more than travelling on them is not being able to travel on them. Besides closing many of the country's airports, the heavy snow that fell in December brought the railways to a halt, too. Trains were cancelled or delayed, commuters frustrated and in several cases passengers were trapped in snowbound carriages overnight.

More bad news is arriving with the thaw: from January 1st rail fares will rise across the network by an average of 6.2%. That is considerably higher than the rate of inflation-currently 3.3%-and far above wage increases, which are averaging just 2.2%. The headline figure disguises much heftier hikes on some routes, several of which will see double-digit mark-ups.

Fiscal austerity is not solely to blame, even if, like most of the rest of Whitehall, the Department for Transport-which supports and supervises both the train-operating firms and Network Rail, the company that runs and maintains the tracks-must soon find big spending cuts. The higher fares can be traced back to a policy introduced by the previous Labour government. Worried about the ballooning subsidy to the railways, which hit pound5.2 billion ($8.9 billion) in 2008-09, it wanted passengers to make a bigger contribution. Further price rises are likely over the coming years for the same reason. Ministers in both the Labour administration and its coalition successor have promised consolatory improvements, with new carriages, longer platforms and more electrified track all designed to ease the crowdedness that affects commuter lines in particular.

Still, the looming rises are set to provoke an uproar. British rail fares are already among the most expensive in the world. Just over half of passengers think trains offer value for money; according to one recent survey, around 15% of them would consider abandoning trains or moving house to avoid these steeper fares.

Yet the government can mount a reasonable case in defence of the increases. It is not clear why the public should be heavily subsidising a mode of transport that accounts for a tiny minority of all travel: 8% of the total distance travelled in Britain during 2009, compared with 85% by cars and vans. The relatively few who use railways often are disproportionately well-off: three-fifths of the traffic is concentrated in the wealthy commuting counties of the south-east.

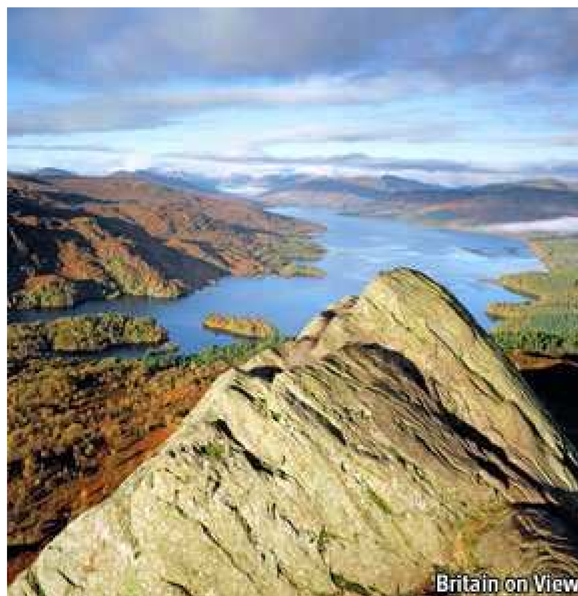
In any case, the steady increase in the cost of rail travel over the past 30 years (trains are now around 50% more expensive in real terms than in 1980) has not stopped passenger numbers growing to their highest level since the end of the second world war. Many rail firms enjoy a virtually captive market: trains are very good at moving commuters into and out of large cities; congestion on the roads means that many people have no real alternative. Passengers might grumble about the new fares, but most will pay up nonetheless.

Gold mining

Precious but precarious

Dec 29th 2010 | from PRINT EDITION

The high price of gold is encouraging miners to dream



There's gold in them there Highlands

OLD gold-mining shafts are being reopened around the world, as economic uncertainty and scepticism about other assets has sent the gold price soaring: the yellow metal hit a record high of over $1,400 an ounce in December, double its 2007 level (though it has since fallen a little). Abandoned veins in mineral-rich countries have become viable again-and despite the relatively steep extraction costs, a miniature gold rush might be under way in Britain, too.

The action and the deposits are concentrated on the Celtic fringe. Since 2007 Galantas Gold Corporation, a Canadian firm, has been working what is currently Britain's only gold-producing mine at Omagh, in Northern Ireland, shipping the ore to Canada and running a small gold-jewellery operation. Extensive electromagnetic prospecting has been carried out elsewhere in the province. There are proven though mostly unquantified deposits in Scotland. Only Wales, once the focus of British gold mining, seems destined to miss out.

Chris Sangster of Scotgold Resources, an Australian outfit that holds assorted exploration licences in the Scottish Highlands, is confident that his firm will be mining soon. He expects others to follow, and that Britain will have two more active mines within five years. Roland Phelps of Galantas thinks over 3m ounces of gold reserves could be discovered in that period: not much by the standards of big gold-producing nations, but enough for a tidy niche industry.

For all their enthusiasm, however, the prospectors face obstacles, among them regulation and environmental concerns. Scotgold Resources is struggling to get permission to reopen an old mine at Cononish, inside the Loch Lomond and the Trossachs National Park (above). The planning process for the Galantas mine in Omagh took 11 years.

The hope is that the strict regulatory regime will offer a commercial compensation, enabling Britain to specialise in "ethical gold", as Mr Phelps puts it. But other problems might prove less pliable.

Gus Gunn of the British Geological Survey reckons that, apart from Omagh and Cononish, "nowhere is gold known to be present in quantities that would currently be economic to mine"; he also thinks it might take a decade to prove and develop other finds. The mining firms are more bullish-but even they can't confidently predict the future path of the gold price. Low mineral prices have wrecked British mining before; if the gold market drops, the country might once again see empty tunnels and broken dreams.

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Bagehot

A plague on their House

Dec 29th 2010 | from PRINT EDITION

British distrust for politicians is peculiarly dangerous



DURING the general election of 1959, the prime minister Harold Macmillan undertook a spot of campaigning in Rochester and Chatham, a marginal seat. It was a strikingly deferential business. For a mile or two, the Conservative candidate, Julian Critchley, was permitted to ride in his party leader's car, "not daring to speak". Gesturing languidly at Rochester's cathedral and castle, Macmillan murmured "very fine". Leaving the car to mount a portable platform, he added, "Beastly things, elections", before asking a clutch of bewildered housewives "not to let Labour ruin it". Then he was gone. Sir Julian (as he later became) was elected to a House of Commons filled with sleek old Tories in Old Etonian or Brigade of Guards ties, seemingly all called Charlie and all related to each other, he later recalled.

Quite a lot of MPs were cads and bounders, even then: there were scandals over the selling of honours and dubious party donations throughout the 20th century; conflicts of interest were rife. But for a long time, British deference-and its more wholesome, less class-based cousin, public trust-kept MPs safe. That deference was already waning when Sir Julian entered politics. Today, after years of bitter revelations about MPs and "sleaze", voter trust is in catastrophic shape.

The causes are many. Recent ones include a sense that the Iraq war was mis-sold, parliamentary-expenses scandals and a slew of memoirs by Tony Blair and his allies, casually admitting their long-held belief that Gordon Brown-the man they had publicly backed for re-election as prime minister weeks before-was more or less a dangerous lunatic. The Christmas

break was marked by fresh headlines about hypocrisy, after the *Daily Telegraph*, a newspaper, secretly recorded Liberal Democrat ministers saying mildly disobliging things about their Tory coalition partners.

The result is corrosive cynicism. Fully 40% of voters told the latest British Social Attitudes Survey that they "almost never" trust any of their governments to put the national interest first (just 11% said the same in 1987); 60% "almost never" trust politicians to tell the truth. British voters are not alone, of course, in wondering how much faith to put in their elected representatives. Lots of countries have developed coping mechanisms to oil the squeaking wheels of democracy. Yet it is doubtful that such methods could work in Britain.

One successful strategy is to employ broadly honest politicians in conditions of near-total transparency. Alas this happy ploy is more or less confined to countries such as Sweden, where ministers resign for forgetting to pay television-licence fees, and members of parliament perch in tiny, state-owned bedsits while working in the capital: 72% of Danes and 66% of Swedes duly told a 2010 Eurobarometer poll they trusted national parliaments. Less attractive (but effective) lubricants for democracy include patronage, pork-barrel spending and special-interest voting.

Deference, the coping mechanism now spurned in Britain, lives on in a surprising number of places, happily co-existing with a generalised contempt for politicians. One quick test involves pondering how likely a senior politician, or even a member of his family, is to face a parking ticket. In parts of southern Europe, even lowly backbenchers enjoy limousines and drivers. In America, where voters are terrifically rude about Congress in the abstract, individual congressmen and senators still enjoy considerable fawning and swan about in cars with special number plates. Fit such plates to British MPs' cars, and their paintwork would be scratched within minutes.

The blatant distribution of pork is also hazardous in Britain, a heavily centralised country with a ferocious press. Reporting from Tennessee some years ago, Bagehot was left slack-jawed on entering Knoxville's titchy yet lavish airport, which boasts a giant indoor replica of a Smoky Mountain stream, complete with real trees, 18,000 gallons of water, boulders and a wooden sculpture of a bear. A local cheerfully explained: Knoxville's congressman was chairman of the House of Representative's aviation subcommittee. A British transport secretary would be running a risk to demand a new bus station in his constituency.

Don't cut in line

In too much of Europe, though voters resent it, they know that the right political contacts are needed to land government contracts, a job for a child at the state airline or public broadcaster, or senior posts at a university or hospital. Cynicism can also be muted by tribal loyalties, especially where voting systems lead to permanent government by coalition. It is no coincidence that the wildest examples of corruption are found in parties that exist solely to defend the interests of a homogeneous regional, ethnic or language group. Minority-interest voting does happen in parts of Britain, but most MPs are elected on national platforms. Finally, British distrust of the European Union closes off a common strategy for continental voters who despair of their domestic rulers: placing their hopes in the EU as a technocratic *deus ex machina*, which will one day form a union deep enough to save them.

Why are the British so unusually hostile to clientelism? It is not that they are a nation of angels. Perhaps it is because they are great queuers, roused to special fury by anyone cutting in line. Political sleaze often resembles a form of queue-jumping, whether it involves pork, special favours for loyalists, jobs for cronies, or the maintenance of a grandee's lifestyle at the public's expense. No wonder such misconduct arouses white-hot anger.

The current British mood is unusually lethal: to simplify, it mixes Sicilian levels of cynicism with a Swedish rage for transparency, in a country that no longer does deference. That is a combination that has never been tried before. It would be a grave mistake to think this crisis of trust will blow over.

Economist.com/blogs/bagehot

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Information technology goes global

Tanks in the cloud

Dec 29th 2010 | from PRINT EDITION

Computing services are both bigger and smaller than assumed



CLOUDS bear little resemblance to tanks, particularly when the clouds are of the digital kind. But statistical methods used to count tanks in the second world war may help to answer a question that is on the mind of many technology watchers: How big is the computing cloud?

This is not just a question for geeks. Computing clouds-essentially digital-service factories-are the first truly global utility, accessible from all corners of the planet. They are among the world's biggest energy hogs and thus account for a lot of carbon dioxide emissions. More happily, they allow firms in developing countries to leapfrog traditional information technology (IT) and benefit from advanced computing services without having to build expensive infrastructure.

The clouds allow computing to be removed from metal boxes under desks and in firms' basements to remote data centres. Some of these are huge, with several hundred thousand servers (high-powered computers that crunch and dish up data). Users pay for what they use, as with electricity. As with electricity, they can increase their usage quickly and easily.

The "cloud of clouds" has three distinct layers. The outer one, called "software as a service" (SaaS, pronounced sarse), includes web-based applications such as Gmail, Google's e-mail service, and Salesforce.com, which helps firms keep track of their customers. This layer is by far the easiest to gauge. Many SaaS firms have been around for some time and only offer such services. In a new study Forrester Research, a consultancy, estimates that these services generated sales of $11.7 billion in 2010.

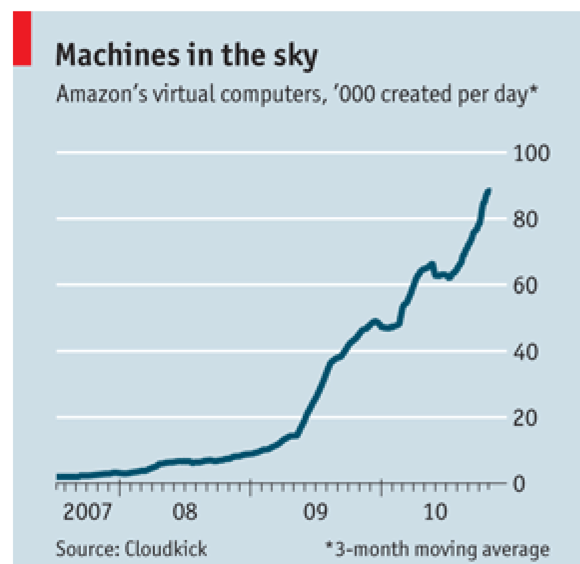
Going one level deeper, there is "platform as a service" (PaaS, pronounced parse), which means an operating system living in the cloud. Such services allow developers to write applications for the web and mobile devices. Offered by Google, Salesforce.com and Microsoft, this market is also fairly easy to measure, since there are only a few providers and their offerings have not really taken off yet. Forrester puts revenues at a mere $311m.

The most interesting layer-the only one that really deserves to be called "cloud computing", say purists-is "infrastructure as a service" (IaaS, pronounced eye-arse). IaaS offers basic computing services, from number crunching to data storage, which customers can combine to build highly adaptable computer systems. The market leaders are GoGrid, Rackspace and Amazon Web Services, the computing arm of the online retailer, which made headlines for kicking WikiLeaks off its servers.

This layer is the hardest to measure. It is growing rapidly and firms do not report revenue numbers; nor are they very forthcoming with information, arguing unconvincingly that this would help their competitors. Amazon, for instance, only reveals that it now stores more than 200 billion digital "objects" and has to fulfil nearly 200,000 requests for them per second-impressive numbers but not very useful ones (an object can be a small file or an entire movie). Rackspace says it operates nearly 64,000 servers globally, but notes that only some are used for IaaS.

This reluctance to share information has inspired analysts and bloggers to find out more, in particular about Amazon. That is where the tanks come in. During the second world war, the allies were worried that a new German tank could keep them from invading Europe. Intelligence reports about the number of tanks were contradictory. So statisticians were called in to help.

They assumed that the Germans, a notoriously methodical lot, had numbered their tanks in the order they were produced. Based on this assumption, they used the serial numbers of captured tanks to estimate the total. The number they came up with, 256 a month, was low enough for the allies to go ahead with their plans and turned out to be spot-on. German records showed it to be 255.



Using this approach, Guy Rosen, a blogger, and Cloudkick, a San Francisco start-up which was recently acquired by Rackspace, have come up with a detailed estimate of the size of at least part of Amazon's cloud. Mr Rosen decrypted the serial numbers of Amazon's "virtual machines", the unit of measurement for buying computing power from the firm. Alex Polvi, the founder of Cloudkick, then used these serial numbers to calculate the total number of virtual computers plugged in every day. This number is approaching 90,000 for Amazon's data centres on America's East Coast alone (see chart).

The results suggest that Amazon's cloud is a bigger business than previously thought. Randy Bias, the boss of Cloudscaling, a IT-engineering firm, did not use these results when he put Amazon's annual cloud-computing revenues at between $500m and $700m in 2010. And in August UBS, an investment bank, predicted that they will total $500m in 2010 and $750m in 2011.

These numbers give at least an estimate of the size of the market for IaaS. Amazon is by far the market leader with a share of between 80% and 90%, according to Mr Bias. Assuming that Cloudkick's and Mr Bias' numbers are correct, revenues generated by computing infrastructure as a service in 2010 may exceed $1 billion.

So how big is the cloud? And how big will it be in, say, ten years? It depends on the definition. If you count web-based applications and online platforms, it is already huge and will become huger. Forrester predicts that it will grow to nearly $56 billion by 2020. But raw computing services, the core of the cloud, is much smaller-and will not get much bigger. Forrester, reckons it will be worth $4 billion in 2020 (although this has much to do with the fact that even in the cloud, the cost of computer hardware will continue to drop, points out Stefan Ried of Forrester).

At any rate, the cloud is not simply "water vapour", as Larry Ellison, the boss of Oracle, a software giant, has deflatingly suggested. One day the cloud really will be big. Given a little more openness, more people might actually believe that.

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Phone calls

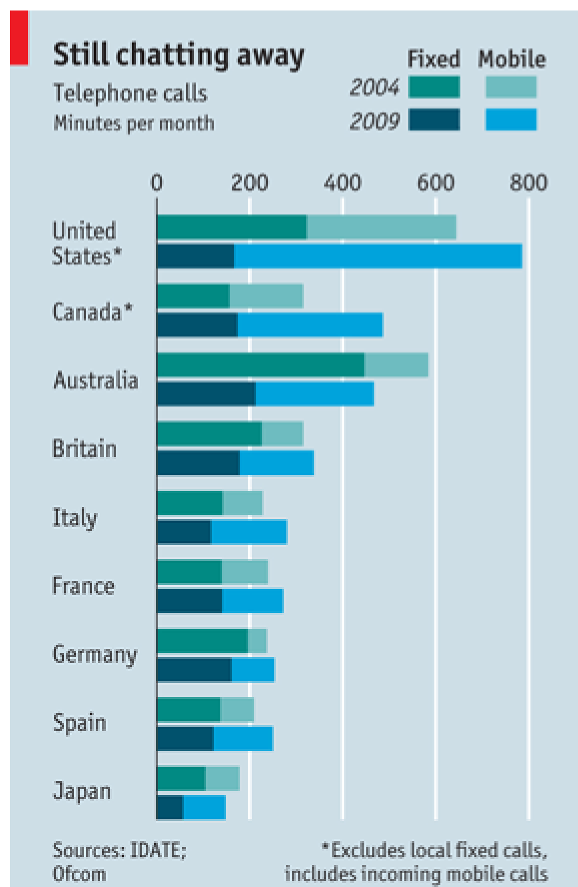
Hanging up

Dec 29th 2010 | from PRINT EDITION

Reports of the death of the phone call are greatly exaggerated



WHILE the computing cloud expands ever more, the humble phone call is in terminal decline, thanks to text messaging and the mobile internet. So, at least, say commentators in Silicon Valley. Some have already penned obituaries. "The phone call is dead", read a recent headline in *TechCrunch*, a blog and currently the central organ of the high-tech region. But is it really time to hang up?



There is no doubt that landline calls are past their prime. The time people spend talking on a fixed telephone has gone down in recent years in nearly all rich countries for which the International Telecommunication Union has data. Yet in most, this fall is more than offset by the increase in mobile calls, according to a recent report by Ofcom, the British telecoms regulator (see chart).

Ofcom also found that cost, more than anything, determined how long people talk for and whether they prefer a landline or a mobile call. Should Germany's rates for wireless conversation-currently twice the rate of landline calls-come down, people would certainly spend more than 112 minutes per month talking on handsets.

The strongest support for the notion of the disappearing phone call comes from America. Nielsen, a research firm, reports that the amount of time mobile subscribers talk has dropped to 700 minutes per month in 2010. That includes incoming calls. A survey by CTIA, a trade group, shows that the average length of a mobile call has dropped from just over three minutes to one minute and 40 seconds since mid-2007.

Less talking does not necessarily mean less phone use. According to Nielsen the number of paid texts per subscriber has grown rapidly over the same period, recently surpassing 700 per month. This is mainly thanks to the restless fingers of teenagers, who are also buying more smartphones-essentially hand-held computers that let them send messages via social networks. Facebook, the world's biggest such network, recently announced that a third of its nearly 600m members access the service on their mobile phones.

Yet in Britain, where teenagers have been texting for longer, the spread of smartphones has not had the same effect, says Steve Alder, the general manager for devices at Telefonica Europe, which operates the O2 brand. British subscribers with smartphones talk 11% longer than owners of simpler handsets, Mr Alder says. The young are both more talkative and more text-hungry.

New technologies often fail to displace old ones. Research from the Kaiser Family Foundation shows that young Americans are watching more television even as they spend more time on the computer. And an old form of communication may stage a comeback in a different form. Skype, the internet phone service, is growing rapidly. In the first half of 2010 users racked up 95 billion minutes in voice and video calls.

Odds are that the conventional phone call will be just one of many forms of telecommunication. And for most people outside of Silicon Valley, where some entrepreneurs allegedly do not even know how to use their smartphone to place a phone call, it will remain the most important one for some time to come. That should be welcomed by all those who relish the gentle art of conversation-and dreaded by parents who pay the bills.

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Alibaba

China's king of e-commerce

Dec 29th 2010 | *HANGZHOU* | from PRINT EDITION

Jack Ma knows as much as anyone about how China's middle class spends its money. What will he do with this information?



A DOZEN big screens hang on the wall. Maps flash. Numbers stream by. The Alibaba Group's "live data monitoring room" offers a snapshot of frantic activity: Chinese firms trading with foreign ones; Chinese individuals buying clothes from each other. Perhaps half a billion people use Alibaba's various online services. The group's diminutive founder, Jack Ma, smiles that business is "pretty good". Yet he is far from satisfied.

In a country where tycoons are often the children of politicians, Mr Ma stands out. He failed twice to get into college. He learned English from the radio. He stumbled on the internet during a trip to America as an interpreter in the mid-1990s. He typed the phrase "Chinese beer" into a search engine. No results appeared. He saw an opportunity.

He started Alibaba in 1999, to help small firms find customers and suppliers without going through costly middlemen. Alibaba.com now claims to have 57m users, including some in nearly every country. It is sometimes likened to eBay, but is more like an online Yellow Pages.

Another venture, Taobao.com, sells to consumers. It has 300m customers and shifted $29 billion-worth of goods in 2009. It is like a scrappy cross between Amazon and eBay: it operates an online mall where vetted sellers can hawk their wares, and a site where anyone with a Chinese identity number can sell anything legal to anyone. It generates money through advertising.



Alibaba's staff boast of the businesses they have nurtured. One Chinese village had a stack of rabbit meat, having skinned the creatures for fur. The chief asked for suggestions. A villager sold the lot on Alibaba.com. More commonly, clients are small firms that want to link cheaply to the global market. Machine-makers in Turkey or Britain use Alibaba to find cheap suppliers in China without having to go there. Buyers can read reviews that others have written about each seller, which fosters trust, though it is far from foolproof.

The Alibaba campus in Hangzhou looks much like the offices of a zippy firm in Silicon Valley. The architecture is airy and *feng shui*-compliant. Employees enjoy ping-pong and free massages. Grey hairs are as rare as neckties. As is common at Chinese internet firms, a disproportionate number of senior managers are foreign-educated or have worked abroad.

Alibaba has hefty foreign backers: America's Yahoo! and Japan's Softbank. Yet because of where it is, it cannot operate like a Western firm. Until the mid-1990s the growth of the internet went all but unreported in China's news media. So getting started was hard for Mr Ma. But now he sees opportunities everywhere.

China has millions of small entrepreneurs but a primitive financial system. To boost traffic through his websites, Mr Ma set up an online payments system, Alipay, in 2004. Its growth was greatly helped by the ban that China imposed, until recently, on its American rival, PayPal. Alipay says it now has 470m users worldwide and that more than 500,000 Chinese merchants accept it. In some Chinese cities people can use it to pay their utility bills.

Mr Ma has also started a service called Ali-loan. He does not lend money, but works with banks, which typically have no idea if a small borrower is creditworthy. Mr Ma, in contrast, has a trove of data revealing whether small firms pay their bills on time. He can also bundle together firms that know each other, so that a seller can help guarantee a bank loan to a regular customer. According to Alibaba the proportion of Ali-loan's lending that goes bad is a trifling 0.35%, which suggests that the service could be expanded fast.

The firm faces several obstacles. First, the Chinese internet market is cut-throat and evolving fast. Baidu, the country's leading search engine, has not yet attacked Alibaba head on, but one day it might. Second, talent is in short supply. Wages for the best engineers and managers are soaring.

Third, in its rush to grow, Alibaba has neglected to make much profit. Its main services are free, with sellers paying only for extras such as being bumped to the top of a list of search results. Mr Ma says this is deliberate: size will eventually bring rewards. But investors will not wait for ever. Recognising this, Alibaba.com, the listed part of the group (most of which is private), promised in December to pay a special dividend of $140m in January.

Half a billion credit histories

Alibaba has a huge and barely exploited asset: the data it has gathered on the spending habits of China's emerging middle class. The firm is cagey about what, exactly, it will do with these data, and insists that it will not violate anyone's privacy.

Nonetheless, there are ways in which Alibaba could profit from what it knows. One idea might be to use customer data to identify trends and so help companies to anticipate what consumers want. Given the paucity of accurate data in China, this would be extremely valuable.

Another promising area might be credit. Ali-loan does not charge for its credit-scoring service for business borrowers, and says it has no plans to. But it would make sense: a small fee on each loan would be almost pure profit. And there is no practical reason why the group should limit itself to helping businesses borrow money. Another glittering prize would be to help Chinese consumers obtain credit, too. Very few can do so at the moment. Many would doubtless like to.

This is a politically sensitive area, however. The government largely controls the allocation of credit in China. Through state-controlled banks, it funnels the nation's savings to large, politically favoured firms. Would an expansion of credit to the little people be seen as a threat to this cosy arrangement? Some in government probably think it a good idea to help small businesses and even consumers get loans, but others are cautious. The Communist Party is terrified of credit bubbles, the bursting of which might spark unrest. So Mr Ma must tread carefully.

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Luxury goods

The second handbag war

Dec 29th 2010 | from PRINT EDITION

Bernard Arnault lays siege to Hermes and its founding family



Bags I this one

ON HIS way to creating the world's biggest luxury group and becoming the richest man in France, Bernard Arnault has made a career of swallowing grand, family-owned businesses. Over the years he has picked many a fight with founders of luxury firms, or their heirs, who were unwilling to sell. He also fought bitterly and unsuccessfully with Francois Pinault, his archrival, over the takeover of Gucci, an Italian fashion house. The French press called it the "handbag war".

Three months ago Mr Arnault began what may become his longest, most spectacular takeover battle yet. At the end of October his group, Moet Hennessy Louis Vuitton (LVMH), announced that it had amassed a 17.1% stake in Hermes, a family-owned maker of silk scarves and expensive handbags. On December 21st LVMH said it had increased its stake to 20.2%.

Mr Arnault's offensive took the descendants of Thierry Hermes, a saddlemaker who founded the company in 1837, by surprise. LVMH built the stake through cash-settled equity swaps with three banks that dated back to 2008, when the luxury industry was in a deep crisis. The use of these derivative contracts allowed LVMH to skirt disclosure requirements and produced a nice profit for Mr Arnault, who had bet on Hermes's stellar rebound.

The five dozen heirs who own 73% of Hermes are not happy about the intruder. They want the company to remain independent and keep its tradition of craftsmanship, which they fear would be lost in a big, commercially minded group like LVMH. On December 5th the family said they would create a holding company into which they would put 51% of Hermes's shares. It would have the right to buy out any member wanting to sell his stake. This involves a financial sacrifice, since those who put their shares into the holding will surrender part of their dividends so they can be used to buy out other members.

Mr Arnault insists that his intentions are amicable. LVMH is aiming to be a supportive long-term shareholder of Hermes, and wants to contribute to the preservation of the group's Frenchness and its family-firm attributes. The family retorts that if his intentions were amicable, he would sell and go away. Patrick Thomas, the chief executive of Hermes, maintains that it does not need help or advice from LVMH, pointing out that Hermes shares have done better than those of LVMH since Hermes went public in 1993.

However united the Hermes heirs appear to be in their opposition to Mr Arnault, his prowling seems to have alarmed them, and it is conceivable that their united front may crumble. And to create the holding company they will need an exemption from having to make a mandatory tender offer for all shares from France's Financial Markets Authority (AMF). Colette Neuville, an influential French advocate of shareholder rights, has called on the AMF to block the family's move, arguing that it would put non-family minority shareholders at a disadvantage because the value of their shares would be reduced if a majority of the shares were locked up.

After Mr Arnault's latest swoop, only about 7% of Hermes's shares are traded on the stockmarket. Since the AMF has a duty to protect minorities' interests, the regulator may indeed block the plan.

"By continuing to buy, Mr Arnault piles up pressure on the family to delist Hermes, for which they may not have the wherewithal," says Luca Solca, a luxury analyst at Bernstein Research. Or Mr Arnault may be playing a long game. Analysts at HSBC, a bank, say that he knows that he cannot take over Hermes without the approval of about 15 members of the fifth generation who are aged roughly 65-75; the analysts speculate that he is positioning LVMH for the succession of the sixth generation.

Bertrand Puech, chairman of Hermes and a family member, says the sixth generation is as committed to the continued independence of the *maison* as their forefathers were. But so were the heirs of Louis Vuitton, whose business became one of Mr Arnault's prize conquests.

Ernst & Young sued over Lehman

Going for the auditors

Dec 29th 2010 | *NEW YORK* | from PRINT EDITION

The ultimate target of the lawsuit may be Lehman's former bosses

WAS the collapse of Lehman Brothers in 2008 aided by a fraudulent cover-up of balance-sheet shenanigans? Andrew Cuomo, New York's outgoing attorney-general and incoming state governor, thinks so, and has filed suit against Ernst & Young, Lehman's auditors.

Mr Cuomo alleges that E&Y committed fraud by signing off on an accounting manoeuvre used by Lehman, known as Repo 105. Under this scheme, towards the end of each quarter Lehman temporarily swapped some of its assets for cash with another bank or investor, but booked this as if it were a permanent sale of the assets. By doing this, it and the other banks that used this manoeuvre in the run-up to the credit crunch made themselves look less indebted in their quarterly results.

The lawsuit seeks penalties equal to all the fees E&Y has earned from Lehman (about $150m) plus unspecified damages which could amount to the same again or more. E&Y says: "We look forward to presenting the facts in a court of law." However, both sides have an incentive to settle. Jury trials over accounting matters are unpredictable, given their technical nature and jurors' limited expertise.

The auditing firm says that it obeyed the principles laid down by America's Financial Accounting Standards Board. In particular, E&Y will argue that one of the board's rules, FAS 140, allowed it to certify Repo 105 the way it did. However, a report into Lehman's bankruptcy last March, by a court-appointed examiner, said that while E&Y had become "comfortable" with Lehman's use of Repo 105, it did not examine the extent to which the investment bank used the manoeuvre or the extent to which this flattered its reported figures. E&Y, fearing a fat-cat-hating "runaway jury" imposing colossal penalties, would probably rather not take its chances at trial. But neither can Mr Cuomo be sure of winning.

E&Y is questioning Mr Cuomo's use of the Martin Act to bring his case. This state law is a powerful one (and beloved of Mr Cuomo's predecessor as attorney-general, Eliot Spitzer), since it does not require proof of any intent to defraud. But in its nearly 90 years in force the act, says E&Y, has never before been used against auditors, as opposed to the company that had taken the alleged actions.

One possible outcome is a settlement in which E&Y agrees to co-operate with the prosecutors in cases they may bring against Lehman's former executives. If so, the fines and sanctions suffered by the auditing firm and its partners may be stiff but not ruinous.

After all, no one wants to cause the fall of another big accounting firm. In 2002 Arthur Andersen was found criminally liable for its shredding of documents and other actions linked to its audits of Enron, a collapsed energy giant. Though Andersen's conviction was later overturned, the firm was already gone. With just four big accounting firms remaining, and none of the next tier big enough to take up the slack, the corporate world cannot easily handle another accounting-firm failure. This is another reason to suspect that the authorities' real intent is not a credibility-busting hammer blow against E&Y, but perhaps one against Lehman executives instead.

Motorola

Breaking up

Dec 29th 2010 | from PRINT EDITION

Even spun off, Motorola's mobile-phone unit may not stage a comeback



SOMETIMES the parts are worth more than the whole. This is the hope of Motorola, a faded telecoms giant, which will split itself in two on January 4th. But will this break-up indeed create value? Investors are not worried about the pedestrian parts of Motorola's business, which include emergency-services radios and hand-held scanners, and which will be hived off into a firm called Motorola Solutions. The problem is the other half, Motorola Mobility, a maker of mobile phones and TV set-top boxes.

Motorola's mobile-phone business has been struggling since its RAZR handsets fell out of fashion in the late 2000s. The unit recently staged something of a comeback by betting on smartphones running Android, an operating system developed by Google. Motorola's Droid models, in particular, have seen a measure of success. In the third quarter the unit made its first profit in three years.

Yet things may get worse before they get better. Many buyers of Droid phones are customers of Verizon, America's largest mobile-phone operator. It needed Motorola's smartphones to compete with AT&T, the number two and, so far, the only network to offer the iPhone in America. But Verizon is rumoured to be launching a new version of Apple's gadget in January; if so, Motorola's market share is likely to shrink. Since the firm's handset business also tends to be slow early in the year, Sanjay Jha, its boss, expects a loss in the first quarter.

Motorola Mobility also has some longer-term problems. Other handset-makers are also betting on Android; so all may struggle to differentiate their products. Motorola's Droids, which come with a special user interface called Motoblur, have

been among the leaders of the pack. But devices made by HTC, a Taiwanese firm, are just as good and other makers are catching up fast.

Motorola-like HTC-is thus a bellwether for makers of Android phones, whose sales have now caught up with those of the iPhone-about 300,000 a day worldwide. Some industry analysts doubt that it will be able to create a big market for its devices and make enough profits before cheaper providers move in. If they are right, the smartphone market may eventually become like that for personal computers: a handful of huge competitors with tiny margins. The difference will be that these firms will hail from around the world rather than being mainly American.

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EADS

Peace on the Rhine

Dec 29th 2010 | *PARIS* | from PRINT EDITION

A European defence giant heals wounds and looks ahead



Gallois the peacemaker

LOUIS GALLOIS, the chief executive of EADS, seems to have been doing his best to make the company boring. In many respects he has succeeded, presiding over a period of uncustomary managerial calm at the European aerospace and defence firm. This is some feat: until recently EADS seemed perpetually at risk of being torn apart by the Franco-German rivalries that had persisted from its creation, in a pan-European merger, in 2000.

Although Mr Gallois has brought calm to the management suite, the firm had a lively end to 2010. Airbus, EADS's civil-aviation arm, hit the news in November after a Rolls-Royce engine on a Qantas A380 superjumbo exploded in mid-flight. Rolls-Royce's modifications of similar engines will continue to affect Airbus's deliveries of A380s in 2011. In the same month an extraordinary error by the Pentagon saw EADS and Boeing, rivals for a $35 billion tanker contract from the United States Air Force, being sent confidential details of each other's bids. In December two Airbus executives were charged in connection with a long-running insider-dealing investigation by French authorities.

These unwanted excitements drew attention away from what the firm hoped would be the year-end's main event. On December 1st Airbus said it would fit its A320 short-haul workhorses with new, fuel-efficient engines from 2016. It was a tricky decision for EADS and Airbus. The duopoly which the A320 and Boeing's 737 have long enjoyed in this best-selling category of aircraft is coming under attack from new planes planned by Brazilian, Canadian, Chinese and Russian

competitors, so innovation is needed. At the same time Airbus's engineering capacity is under strain from development work on the long-haul A350, a rival to Boeing's 787 Dreamliner. So instead of pressing forward with a radical redesign, Airbus plumped for a more limited upgrade.

Such a decision might have caused ructions in the past: most of the company's big choices did. By tackling the sources of this endemic strife Mr Gallois has removed a crippling distraction. A new ethos of co-operation should help him with his long-term strategy-rebalancing EADS's military and civilian arms. The firm wants to reduce its dependence on the cyclical business of supplying commercial airliners, which brings in 65% of revenues. Boeing has already achieved such a rebalancing: it made 75% of revenues from passenger aircraft in 1996 but the expansion of its military side has brought that down to 47%.

Until three years ago EADS was stuck with an unwieldy system that sought to balance the interests of the main French and German shareholders by employing co-chairmen and co-chief executives, one of each from each country. The inability of this system to weld French and German working practices and culture was made glaringly obvious by problems in developing the A380. French and German engineering teams worked separately using different design software, and as a result they made a mess of installing the aircraft's 500km of wiring. This and other mishaps resulted in the superjumbo rolling onto the runway two years late and billions of euros over budget. At a tense summit in 2007, Nicolas Sarkozy and Angela Merkel faced up to the fact that the dual management system must go.

Calm descends

So, after the summit, Mr Gallois was put in sole charge of EADS while his former co-chief executive, Tom Enders, a German, was made chief executive of Airbus; and calm descended. Their relationship is apparently good, partly because the pair are not in competition. Mr Gallois is 66 and his contract expires in mid-2012. The younger Mr Enders may expect to succeed him.

Changes to EADS's board have also helped to diminish Franco-German rivalries. The appointments of Lakshmi Mittal, the eponymous boss of the world's biggest steelmaker, and Sir John Parker, a stalwart of many British boards, have brought a more international flavour. The board used to act like that of a (particularly testy) joint venture, continually having to seek Franco-German entente. Diplomatic leadership is still needed to balance French and German interests as well as those of Spain, which has a small stake in EADS, and Britain, where the company still has factories.

Those skills will also come in handy as EADS seeks to expand the defence side of its business. With military budgets under threat in many rich countries this is not a great time to be pushing into this industry. Indeed, the big defence contractors are looking beyond weapons for sources of growth, seeking to increase the size of their broader security businesses and looking at ways to guard against cyberwarfare. EADS has made border protection a speciality.

Spreading out in this way involves tapping government budgets other than those dedicated to defence and even selling to private companies, a new tack for EADS. Defence budgets are still growing in emerging markets such as India, Brazil and the Middle East but these customers are likely to require investment in production capacity in their own countries, which will be another change for a business centred on Europe.

EADS, which earns most of its revenues from supplying equipment, wants to expand its high-margin services operations. It is also on the lookout for takeover targets, probably in America. Winning the Pentagon's tanker contract and starting to build aircraft at a planned factory in Alabama would help to change opinions in a country where EADS is regarded as an outsider. BAE Systems, a British defence company, now does half its business in America. Through canny acquisitions it has managed to appear home-grown there. Now that EADS is no longer a Franco-German war zone it has a better chance of pulling off the same trick.

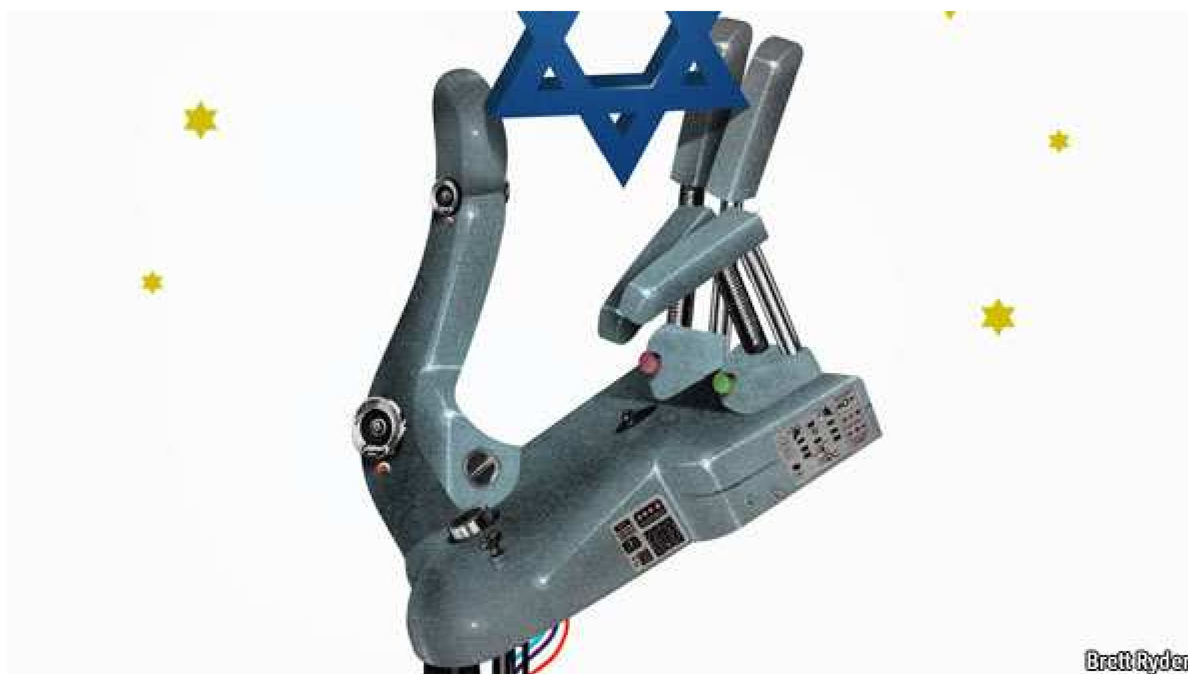
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Schumpeter

Beyond the start-up nation

Dec 29th 2010 | from PRINT EDITION

Israel has become a high-tech superpower over the past two decades. Can the good news last?



ISRAELIS tell a joke about a Jew who takes to reading Arab newspapers. A friend, puzzled, asks him why. If I read the Israeli papers, all I hear is bad news about the Jews, he replies; but the Arab papers constantly claim we are all rich and successful, and rule the world. These days the hero of the tale has another source of good news about Israel: the business press. Over the past two decades Israel has been transformed from a semisocialist backwater into a high-tech superpower. Adjust for population and Israel leads the world in the number of high-tech start-ups and the size of the venture-capital industry. Twenty years ago Harvard Business School's leading guru, Michael Porter, devoted just one sentence of his 855-page "The Competitive Advantage of Nations" to Israel; today there is a growing pile of books on Israel's high-tech boom, most notably "Start-Up Nation: The Story of Israel's Economic Miracle", by Dan Senor and Saul Singer.

Israelis are rightly proud of their high-tech miracle. They lap up books like "Start-Up Nation" and delight in talking about their country's successful IPOs. They are also proud of how it was one of the last countries to enter recession and among the earliest to exit: the economy grew by more than 4% in the year to September. But for all its success the Israeli boom nevertheless raises a number of troubling questions.

First, does the economy rest on too narrow a base? High-tech industries employ only 10% of the workforce but account for 40% of exports. Second, why has Israel proved so bad at turning start-ups into domestic giants? It has 3,800 high-tech start-ups but only four high-tech companies with sales of more than $1 billion a year. Third, is Israel capable of producing content for the internet as well as just the hardware and software that constitutes its "plumbing"? And, fourth, why has the land of the high-tech miracle got one of the rich world's lowest labour-participation rates, just 55%? These questions all add up to one bigger one. Is the Israeli miracle sustainable? Or did it result from a peculiar combination of circumstances in the 1990s?

Israel's policymakers are well aware of all this, and are thinking hard about the solutions. They have identified a number of areas with high growth potential, such as water management, agricultural science, alternative energy and of course security, in which Israel already has world-beating technology. In the life sciences, the government is seeking to speed up the creation of firms by setting up venture-capital funds. However, Israeli officials worry that the country is still lagging in its ability to "turn tomato seeds into tomatoes"-to transform start-ups into the sort of giants, like Google and Cisco, that Silicon Valley regularly produces. Such giants, they note, create a greater proportion of high-paying jobs than start-ups. They also worry that Israeli entrepreneurs are taking longer than they used to in turning an idea into an IPO.

One good sign is the emergence of some Israeli companies that are concentrating on providing content for the internet rather than just the plumbing. JVP, a venture-capital company with more than $820m under management, focuses on developing companies that fuse content with technology. Erel Margalit, the firm's founder, argues that Israel has as much of a comparative advantage in culture as in high-tech: the Jews, he points out, have always excelled in telling stories. Although Jerusalem, where Mr Margalit is based, is synonymous in many people's minds with endless cultural and religious conflict, he argues that it nevertheless stands to benefit from being the meeting-point of three great civilisations.

Going beyond Israel's "Start-Up Nation" model will not be easy. The country's business culture focuses more on dealmaking than on company-building. The army's technological prowess, which provided the know-how behind many a start-up, does not translate as well into providing the internet with content as it did in providing it with plumbing. Israel also has much better links with America and Europe than with the rising powers of Asia.

From strength to strength

There are nevertheless reasons for thinking that Israel's strengths will endure. The government is trying to apply the venture-capital approach that it applied so successfully to start-ups (igniting private-sector creativity rather than picking winners) to late-stage financing. The army is more than a high-tech incubator. It sifts the entire population for talent, giving the most promising techies intensive training in elite units, and inculcates an ethic of self-reliance and problem-solving.

Israel is also good at the sort of technological mash-ups that produce exciting new industries. The inspiration for camera pills (which transmit pictures from inside the human body) came from missiles that can "see" their targets, and the inspiration for heart stents came from drip-irrigation systems. The country has long turned adversity into a source of competitive advantage. For example, it became a world leader in alternative fuel partly because it was surrounded by hostile oil-rich countries.

However, the main obstacle to Israel's long-term economic success has nothing to do with how it creates firms. It lies in its failure to assimilate into its business culture both Arab-Israelis and ultra-orthodox Jews, who will together be about one-third of the population by 2025. Only 39% of ultra-Orthodox men and 25% of Arab women are employed. Think-tanks such as the Milken Institute are trying to encourage small businesses in Arab-majority areas such as Galilee and the Negev. Both these economic problems will only be solved by political will: Israel needs to work harder at dealing with its internal Arab problem; and it needs to tell its ultra-orthodox Jews that, however hard they pray, the rest of the country does not owe them a living.

Economist.com/blogs/schumpeter

Correction: Internet start-ups

Dec 29th 2010 | from PRINT EDITION

In a recent article on internet start-ups ("Another bubble?", December 18th), we misquoted Nick Beim, a venture capitalist: in fact Mr Beim said Groupon, Gilt Groupe and Zynga were increasing their revenues faster than any start-ups in history, not their "revenues and profits". Our apologies.

Online dating

Love at first byte

Dec 29th 2010 | *SAN FRANCISCO* | from PRINT EDITION

Online-dating sites have made it easier for people to click with one another. But they still leave something to be desired



FOR the lovelorn, the new year can be an unhappy time, as they cast envious glances in the direction of lovey-dovey couples at the season's parties. For online-dating agencies, it is a golden opportunity, as people who have spent the holidays ruminating over unsatisfactory or non-existent love lives log on in their thousands, hoping to find romance-ideally before February 14th. "The period between New Year's Day and Valentine's Day is our busiest six weeks of the year," explains Sam Yagan, the boss of OkCupid, a big American dating site.

Once seen as the last resort for a bunch of lonely geeks, online-dating services have gradually shed much of the stigma formerly associated with them. Although they are still popular with tech types-Julian Assange, the mercurial co-founder of WikiLeaks, reportedly once maintained profiles on dating sites under the name "Harry Harrison"-they now attract millions of people from many walks of life. ComScore, a research firm, says Match and Zoosk, two large dating services based in the United States, saw 4.6m and 4.8m unique visitors respectively come to their American sites in November 2010. Meetic, Europe's biggest dating service, also boasts millions of users.

Blowing cyberkisses has become a popular pastime in emerging markets too. In countries and cultures in which arranged marriages are common, sites such as India's Shaadi and BharatMatrimony, which boast many millions of clients, are a big hit with young people who want to influence how their marriage partners are chosen. And a number of sizeable digital matchmakers, including Jiayuan and Zhenai, have risen to prominence in China. Deepak Kamra of Canaan Partners, an American venture-capital firm that has backed several dating services, including Zoosk and BharatMatrimony, estimates that the industry's revenues from membership fees and advertising now amount to $3 billion-4 billion a year.

Searching for that special someone

In addition to broad-based matchmaking sites such as Match and Zoosk, the online-dating world has also spawned thousands of niche ones. Some, such as JDate, which is designed for Jewish lonely hearts, and Ave Maria Singles, which focuses on Catholics, serve specific religious or ethnic niches. Others appeal to rather less conventional interests. Vampire lovers can sink their teeth into the profiles on offer at Vampire Passions, while those obsessed with iPads and iPhones can hunt for their iBeloveds at Cupidtino, a dating site for fans of Apple's products.

The rise of these and other dating sites has been driven by several trends in society. One of these is that people now move around more often for work, distancing themselves from friends and family members who could play matchmakers. Another is that they are living longer, and hence more likely to look for new love later in life. The spread of fast broadband connectivity in many countries has also encouraged people to dabble in online dating.

Academics who have studied the industry believe that it and other forms of electronic communication such as e-mail and social networks are starting to have a significant effect on the ways in which people find love. In a study presented at the American Sociological Association's annual meeting in August, Michael Rosenfeld of Stanford University and Reuben Thomas of the City College of New York reviewed data from a survey of more than 3,000 Americans with romantic partners. They concluded that among heterosexual couples who met in 2009, the internet had become the third most common way of making initial contact-behind introductions from friends, but almost on a par with encounters in bars and restaurants.

Yet while looking for love online is no longer seen as an act of desperation, the digital-dating industry still generates plenty of controversy. Its critics charge that sites' claims of matchmaking prowess are often greatly overblown. Mark Thompson, a former executive in the online-dating trade, now an author, believes that television ads showing starry-eyed couples boasting about how they found their perfect match online should carry warnings that such outcomes are hardly typical.

Dating sites have also been accused of failing to take robust enough action to protect vulnerable users from fraudsters and sexual predators. Last year several elderly British women sent money to American soldiers whose profiles they had come across on dating sites, only to discover subsequently that the profiles were bogus. And there have been instances of rapists using dating sites to prey on women.

A megabit on the side

Then there is the fuss over sites such as Illicit Encounters and Ashley Madison, which have sparked an outcry by matching people seeking partners for extramarital affairs. Outraged critics claim such services deliberately promote infidelity to further their commercial ambitions. In America Ashley Madison, which claims to have 8.3m registered members in nine countries, has been decried as "a business built on the back of broken hearts, ruined marriages and damaged families". In Britain the *Sun*, a tabloid daily, labelled it a "vile website" when it set up shop in the country last year. Several critics have also accused it of exaggerating its ability to match cheats with one another, chronicling its alleged failings on websites such as ashleymadisonsucks.com.



Few other dating sites have provoked such a public backlash. But some sociologists, such as Millsom Henry-Waring of the University of Melbourne, have given warning that electronic forms of communication in general-and digital-dating services in particular-are gradually changing society's conception of relationships and marriage for the worse by encouraging people to view partners as commodities that can simply be traded in for better versions at the click of a computer mouse.

Dating executives retort that although the industry is not perfect, many of the criticisms levelled at it are unfair. They acknowledge that some clients, who typically spend anything from a few months to a year before finding a soulmate or throwing in the towel, have frustrating experiences on their sites. But they point out that the web still offers important advantages over more traditional routes of finding a mate.

One is its ability to create large pools of potential partners that would be hard to replicate in the real world. This explains why online dating has proven especially popular with, for example, homosexuals. Another is the sheer convenience of

being able to trawl through hundreds of profiles without having to leave the comfort of your home. Meeting someone via the web is also safer, they argue, than trying to pick up a date at random in a bar. Users of dating sites are typically encouraged to report suspicious behaviour and some sites employ sophisticated software designed to flag bogus profiles.

Online matchmakers also claim their record of producing successful unions is better than critics give them credit for. For instance, eHarmony, a prominent online-dating service, touts the results of a survey conducted on its behalf by Harris Interactive, a market-research firm, that concludes it was responsible for an average of 542 people getting married every day in America between the start of 2008 and the end of June 2009. EHarmony claims to have accounted for almost 4.8% of all American marriages in that period.

Such studies, coupled with advertising campaigns playing up the possibility of finding love online, have helped the online-dating industry to prosper. Some sites such as OkCupid and Plentyoffish are free to join and make most of their money from advertising. Others, including eHarmony, which presents users with potential partners using algorithms designed to identify compatibility, charge a subscription. The monthly fee for the American version of eHarmony is between $19.95 and $59.95, depending on the length of a subscription.

Not surprisingly, sites that charge for their services and require people to fill in detailed questionnaires argue that they are more likely to attract those who are serious about finding love. But owners of free sites say that is not necessarily so. OkCupid's Mr Yagan argues that the size of the fee that most paid sites charge is not big enough to act as an effective filter. And he claims that his own site has a very effective way of demonstrating a person's seriousness of intent, which involves promoting the profiles of those people who are most active on it.

There has been some speculation that both kinds of business model will be undermined by the rise of free social networks such as Facebook, which make it easy for people to share large amounts of personal information with one another. But Greg Blatt, the former boss of Match and the new chief executive of IAC, a holding company that owns the dating site, says studies conducted by Match show that many people prefer to keep their dating activity separate from socialising with their friends. Zoosk has even cleverly piggybacked on Facebook, enabling its users to import their details from the social network to populate their profiles on Zoosk's fast-growing service.

Dating sites have also adapted successfully to different cultures. In India agencies such as BharatMatrimony provide remarkably detailed lists of criteria, including religion, caste, income and education, that allow people to make minute refinements to the description of their ideal soulmate. The services also let parents and relatives create profiles on others' behalf. Once promising partners are identified, they are often vetted by traditional marriage-brokers.

In spite of all this, loveseekers should still approach online dating with a healthy degree of scepticism. For a start, pools of potential partners are often much smaller than the big numbers touted by mainstream sites suggest. David Evans, the editor of Online Dating Insider, an industry blog, cites the example of a hypothetical site with 15m profiles in its database. Perhaps only 4m of these will be "active" at any time, he says-meaning that the profiles' owners have logged in at least once in the previous three months. Moreover, some services only let people contact paying members, which shrinks the audience still more. And given that most online daters look for partners who live no more than 25-30 miles away, the real pool of potential mates is often tiny.

Ghost stories

To make matters worse, unscrupulous site operators sometimes stuff their databases with fake profiles maintained either by their own staff or by people they have paid. These "ghosts", in the industry's jargon, are used to draw in new punters and to help keep existing ones hooked. Last year Jetplace, an Australian company, admitted that it had been running more than 1,300 false profiles on a matchmaking service that it owned. Dating-site bosses maintain that such instances are rare, but detecting them can be tricky.

Even genuine profiles can be misleading: OkTrends, a blog run by OkCupid, reported last year that users routinely fib about things such as their height and wealth in order to boost their chances of being contacted. Yet the prospect of a first face-to-face meeting provides a natural check on people's propensity to exaggerate. Some researchers have found that daters tend to come clean about any slight misrepresentations they have made before meeting a potential partner.

Dating sites' claims of matchmaking prowess also need to be treated with caution given that the data on which these are based come from research they have paid for themselves. Prominent sites have also been reluctant to submit their matching algorithms to an independent inspection that would determine their efficacy. Gian Gonzaga of eHarmony, which loves to boast about its patented "Compatibility Matching System", says the firm won't take such a step because it would reveal the site's "secret sauce" to competitors.

Even without such evidence, Dan Ariely, a professor of psychology and behavioural economics at Duke University, is convinced that the approach to matchmaking embodied by many dating sites represents a market failure. In a recent book, "The Upside of Irrationality", he argues that the sites treat human beings as if they are goods that can be fully defined according to a set of standard attributes, in much the same way that, say, a digital camera can be described by the number of megapixels that it has and other characteristics. But this cold, drearily functional approach to assessing compatibility fails to capture the indefinable spark that triggers romance.

Helen Fisher, an anthropologist working for Chemistry, a dating site owned by Match, says Mr Ariely's argument ignores the fact that although there is inevitably some magic to love, decades of scientific studies have shown that people tend to choose mates with similar socioeconomic backgrounds, shared religious beliefs and other things in common. It therefore makes sense to look at these factors, as well as exploring people's personality types, in order to narrow down potential matches. "We don't just fall in love with anything that comes along," she notes.

Ms Fisher has a point. But so does Mr Ariely. Even industry insiders acknowledge their models cannot deal with the notion that people from very different backgrounds sometimes fall for one another. Part of the problem, says Mr Ariely, is that sites have been slow to embrace new ways for people to interact online, such as virtual chatrooms, which would help to foster more serendipitous partnerships.

The industry has also been slow to strengthen security measures to protect those seeking romance from falling into the clutches of frauds, cads and worse. A few agencies, such as True, an American dating service, regularly run background checks on their customers. But they are the exception rather than the rule. As well as weeding out crooks and sex offenders, True also uses official databases to spot married people posing as singles.

Mr Evans thinks many online-dating services are reluctant to undertake thorough background checks because these could put off potential customers. But pressure on them to take action is likely to increase. Last month a new Internet Dating Safety Act came into effect in New York state, which among other things requires dating sites to post safety tips for users on their pages. New Jersey, which passed a similar law a few years ago, requires sites charging membership fees to make clear whether or not they conduct background checks when people sign up.

Portable passion

Safety will become even more of a sensitive question as the online-dating industry embraces what those who work in it see as the next big thing: mobile, location-based dating. Many sites already offer software programmes, or apps, that let users tap into their services via smartphones and other devices. But that is just the beginning of a far bigger revolution in which people will be given technology that allows them to flirt with other members of a dating service in real time.



Already firms such as Skout and Flirtomatic let users send messages to other members in the vicinity, whose exact locations are masked for safety reasons. Looking ahead, executives foresee a day when people no longer need to fill in questionnaires on several dating sites. Instead, their personal information will be held on servers in "data clouds" that will alert them automatically when a potential love interest is nearby.

Some dating services are also exploring novel ways to overcome the concerns raised by people such as Mr Ariely. Rather than proposing matches based solely on the results of questionnaires and personality tests, sites such as ScientificMatch and GenePartner are experimenting with "scientific" matching methods. By making genetic information the cornerstone of their matching techniques, they are betting that they can find true chemistry between potential lovers.

Such experimentation will no doubt fuel the fears of those who worry that cyberdating is commoditising intimacy and undermining marriages. It is certainly plausible that the Wal-Marts of the online-dating world, with their overflowing virtual shelves of potential partners, have created the impression that a new flame can be found (and an existing one discarded or cheated on) in a mouse-click. But again some scepticism is warranted. Rising divorce rates and a growth in casual dating were apparent well before the first online matchmaking sites came into being. And advertising for love is hardly new: there were classified ads and lonely-hearts columns long before the internet appeared.

It is also true that a site such as Ashley Madison facilitates extramarital assignations. But to blame the service for infidelity is to confuse cause and effect. Noel Biderman, the site's founder, says the idea for his business came to him when he heard people griping that a sizeable percentage of folk on mainstream dating sites were married and masquerading as singles in order to find partners for affairs.

Some sites-notably in India-have been subject to a different criticism: that they entrench tradition rather than undermine it, by making it easier for people to find partners from the same background as themselves. But at the same time services such as Shaadi and BharatMatrimony have also facilitated numerous so-called "love marriages" in which people have found partners without the intervention of parents or official matchmakers. Like love itself, the world of online matchmaking is full of happy surprises.

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Business in China and the West

A tale of two expats

Dec 29th 2010 | *BEIJING AND LONDON* | from PRINT EDITION

Life is easier for Western expatriates in China than it is for Chinese expatriates in the West



HEARTS lurched into throats. Your correspondent's driver braked hard. But it was too late. After the crash, the motorcyclist, who was miraculously unhurt, picked himself up and argued vigorously that it was not his fault. After all, who doesn't whizz round blind corners on the wrong side of the road from time to time?

The Chinese attitude to safety often causes sharp intakes of expatriate breath. "It's a real problem," says the manager of a Western chemicals firm in Shanghai. "You set strict rules for what goes on in the factory. But as soon as your employees step outside the gates, they face a completely different atmosphere. Ask someone to wear a seat belt and they laugh at you."

Yet Western expatriates in China have a far easier time than they did a generation ago. They no longer huddle in drab hotels and endure Maoist standards of food and service. These days they can have almost anything, for a price: souffles and sushi, Western-style villas with gardens, private schools with famous names for their children. (Harrow and Dulwich College, two posh British schools, both have offshoots in Beijing.)

The air in China may be gritty and the censorship irksome. Conference calls with head offices in America at 4am are tedious. But life is otherwise comfortable. And business in China is more exciting than perhaps anywhere else on Earth.

"We're doing great!" gushes another Western executive. His firm sells engines for "every [kind of machine] that makes stuff". His wares are often pirated, of course. "They just take a laser scanner and copy them," he shrugs. But China's demand for machines that make stuff is ravenous, and that makes up for a lot of intellectual-property theft. Sales are growing by 15-20% a year, salivates this executive.

China's spectacular growth over the past three decades has prompted hordes of businesspeople to jump onto aeroplanes and move house. Western multinationals have sent many of their most ambitious executives to the country, to find new suppliers, set up factories or sell jet engines and whisky to the Chinese.

Crossing continents

In recent years a swelling number of expatriates have also moved the other way. Chinese firms are increasingly global. They scramble for oil and copper in Africa. They scout for investment opportunities in America and Europe. They are starting to set up offices throughout the world. Naturally, they are sending out Chinese executives to run them.

Expatriate Chinese executives are a relatively new phenomenon, and a sign of Chinese strength. Previous waves of emigrants fled China because the country was poor, violent and despotically ruled. They sought a better life elsewhere, and usually found it. They arrived with nothing, prospered through wit and hard work, and often settled permanently abroad.

The new Chinese expatriates are different. They are sent abroad because the Chinese firms they work for are expanding. They arrive on foreign shores with the security of a job and a salary. Their assignments are temporary: they expect to return after a few years.

Their situation is in many ways like that of a Western expatriate, but there are glaring differences. Western expats in China have typically moved from a liberal democracy with a sluggish economy to an authoritarian state with a fast-growing one. Chinese expats in the West have done the opposite. Each journey presents its own challenges. This article seeks to illustrate them, unscientifically, by contrasting the life of a Western expat in China with that of a Chinese expat in Europe.

Revealingly, none of the Western businesspeople in China interviewed for this article was willing to be quoted by name. Causing offence to the Communist Party remains easy and also catastrophic for the bottom line.

"The rules [in China] are not always transparent," sighs "James Smith", an executive at a Western firm that sells beauty products in China. His firm operates through a network of locals who knock on doors and pester their acquaintances to buy lipstick and shampoo. These salespeople also recruit other salespeople.

Such "multi-level marketing" (also known as direct selling) is controversial in many countries, but especially so in China. Some officials think it poses a threat to the "harmonious society"-a slogan coined by the country's president, Hu Jintao, which means, roughly, "a society in which very little that the Communist Party disapproves of occurs".

Multi-level marketing companies are allowed to operate only under tight conditions designed to keep out scammers. For example, they must maintain bricks-and-mortar shops, so that disgruntled staff and customers have somewhere to go to make complaints.

Mr Smith says his firm is more than happy to abide by the rules. But that is not as simple as it would be in the West, for China's written laws are an unreliable guide to what is allowed. For example: is it legal to recruit students to work as part-

time salespeople? As far as Mr Smith knows, it is. But when some of his employees started recruiting on a university campus, the students' parents complained furiously and the government took their side, making it plain that Mr Smith's firm had crossed an invisible line. "I think it's a Confucian thing," he muses. Chinese people place an immense value on education, and abhor anything that might distract students from their books. Mr Smith's firm now steers clear of students.

Not surprisingly, politics is another sensitive point for the Chinese government. Foreign enterprises must tolerate-indeed, facilitate-the setting-up of Communist Party cells in their Chinese operations. Large meetings organised by the company, by contrast, are viewed with suspicion. Direct-sales firms like to hold big pep rallies for their salespeople. In a democracy, this is no big deal. If throngs of herbal-diet-supplement peddlers want to get together and wax euphoric about their herbal diet supplements, the government could not care less. But China's government sees any gathering it does not control as a potential threat. If the ralliers are organised and passionate, they are especially suspect.

Every time his firm wants to hold a rally above a certain size, it must first seek permission from the local authorities. "We never know what the answer will be," says Mr Smith. When a large meeting is allowed, he assumes that the police send spies to make sure nothing subversive is said. He adds, like so many Western executives, that his firm is keen to "develop a long-term relationship of trust with the Chinese government".

The rules grow even stricter whenever the government is staging a high-profile event, such as the Beijing Olympics in 2008 or the Shanghai Expo in 2010. During the Expo the authorities let it be known, informally, that any gathering of more than 40 people would be frowned upon. Any disruption to the Expo would have caused China's rulers to lose face, and they do not like losing face.



Despite all these hassles, Mr Smith says that he loves working in China. He loves the people. He loves the food. And he sees the local attitude to *laowai* (foreigners) changing for the better. A few years ago he and his Chinese wife would be surrounded by gawkers whenever they strolled together through her provincial hometown. Now they attract barely a second glance. Inter-racial couples are no longer quite so gawkworthy.

Mr Smith bubbles with admiration for his Chinese salesforce. In America direct selling is typically someone's second job; in China it is a full-time occupation. Chinese people tend to have large networks of family, friends and classmates, and they do not hesitate to use them. "It's embedded in the culture," he says. They are not embarrassed to ask for favours or tout business propositions at family dinners. "That really helps us," he beams.

As does the economy, of course. A generation ago, Chinese people had empty pockets in their dreary boiler suits. Now millions of them can afford posh foreign make-up to complement their Gucci frocks. Mr Smith cites a figure for his firm's annual sales growth that would make a taipan raise his eyebrows.

Broke among the barbarians

The lot of a Chinese expatriate in the West is less peachy. Consider the food, for a start. English meat pies, says William So, groping for a tactful way to phrase this, "are dry and have no flavour". British nosh is no longer as awful as it was 30

years ago, he concedes. But prices in London are exorbitant. And Chinese executives who are posted abroad do not enjoy the same lavish pay and perks as Western expatriates in China, especially if they work for state-owned firms.

Back home, Chinese managers have housemaids. "They are not used to cooking for themselves," says Mr So, a telecoms executive. When sent to work in rich countries, "they even have to clean their own toilets," he chuckles.

Mr So finds life in London easier than many other Chinese expatriates. His English is excellent, not least because he was educated at a British boarding school. ("It was like a prison," he says: surrounded by cow-filled fields and 45 minutes' walk from the nearest town.) He also studied computing at Imperial College, London, which he enjoyed rather more.

Until recently Mr So was the chief executive of the European subsidiary of China Unicom, a huge telecoms firm owned by the Chinese government. (He is now a freelance consultant.) He oversaw China Unicom's operations not only in Europe but also in Africa, a continent now packed with homesick Chinese people who want to ring home. Much of his job involved working with European firms, some of which use China Unicom's fixed-line and mobile infrastructure to connect calls between Europe and China.

Executives at Chinese firms who are posted to the West often come without their families, he observes: "They don't have the kind of expat package that pays for the kids' education and the wife's shopping." This makes for a lonely, gloomy time, unless the expat in question is young, single, fluent in English and gregarious.



In China a senior executive at a state-owned firm is a big fish. Waiters and receptionists grovel before him. The police treat him with deference. In Europe he is just another middle-aged man in a suit.

As China Unicom's head man in Europe, Mr So was paid a paltry Chinese salary plus a small cost-of-living allowance. His allowance was only 30% more than that of the most junior employee, he says. He managed to live reasonably well in London only because he has some investments. He founded a small internet firm called Beijing Online and sold it before the dotcom bubble burst. He also owns some property. Without that cushion, his time in Britain would have been less comfortable.

Western expatriates in China are typically there because they want to be. Some find the culture fascinating. Most expect to make good money and burnish their curricula vitae. Western multinationals feel obliged to have a presence in China, and since the country is as tricksy as it is potentially lucrative, they often send their most capable staff there. Wal-Mart's global head of procurement is based in Shenzhen. HSBC's boss moved from London to Hong Kong last year. A spell in China helps a Western executive rise to the top.

Yet the converse is not true. Chinese executives, especially at state-owned firms, win promotion by cultivating the right people, and those people live in China. Even a few years away from your connections can mean they go cold, scuppering your chance of promotion. If you are a senior Chinese manager and you get posted abroad, it may mean you are not doing very well at home, says Mr So. And if you work for a state-owned firm, you cannot refuse to go, he adds.

Young Chinese white-collar workers may enjoy the adventure of a foreign posting. Some want to learn about other cultures, improve their English, go clubbing in Amsterdam and generally have fun. Some fall in love with the West and decide to stay, if they can wangle a visa.

Female Chinese expatriates, too, tend to have a better time than men, reckons Mr So. (Perhaps they find the culture less sexist. Perhaps they are luckier in love.) Male Chinese expats who have left their families behind, by contrast, can't wait for their tour of duty to end.

Many struggle with the language. Some of Mr So's expat colleagues speak hardly any English, which is obviously a handicap. The Beijing subway has plenty of signs in English, but good luck finding any in Chinese on the London Underground.

A Chinese firm needs local sales staff to sell things to British customers, but it is often hard to recruit locals. They need to start with positive feelings about China, says Mr So, and it helps immensely if they have studied Chinese. But such people could earn far more working for a Western firm in China.

The one thing about the West that every Chinese expatriate appreciates is the air. "It's much cleaner," says Mr So. "Everyone comments on this." British people are quite pleasant, too. They are very polite, Mr So continues. When you go into a shop, you do not get the feeling that anyone is hostile. "But if you go into a pub and debate Chinese politics, it would be very hard," he says.

Clearer as well as cleaner

Another plus about working in Europe is that the rules governing business are relatively straightforward. "Everything is transparent," says Mr So. If you want to obtain a licence to do something, you don't need to spend money bribing an official or hiring a go-between: "You just download the form from the internet and apply."

Relationships between companies are simpler, too. In China, says Mr So, firms assume that customers will only buy from someone they like. So they spend vast amounts of time stuffing and lubricating clients in private booths in swish restaurants. Western firms do this too, but not to the same degree.

Differences in corporate etiquette are a minefield. If a Chinese vendor gives a presentation and the customer asks him lots of questions he can't answer or raises lots of potential problems, the vendor will be distraught, says Mr So. He will assume that the customer does not like him. But if the customer is Western, it probably just means that he wants to be given more information. "People here look at the facts, not the person," he says.

Another problem for Chinese expatriates is that "views of Chinese companies outside China are quite negative," Mr So notes. "Most Chinese blame the media," he adds. Chinese brands lack cachet outside the domestic market. At home everyone recognises names such as China Unicom, Lenovo or Bank of China, but most Europeans would struggle to name a single Chinese brand.

What is more, Westerners tend to assume that Western firms are superior. They think a big British bank will be sounder than Bank of China even though the British bank has been in financial trouble, says Mr So. This attitude makes it hard to sell directly to Western consumers. (Of course, such stereotypes tend to change when the underlying facts change. As Chinese products improve, Western consumers will eventually notice. Ask the Japanese or the South Koreans.)

In countries that industrialised long ago, much of the infrastructure is old and creaky. The London Underground opened in 1863, and you can tell. The trains don't even have proper air-conditioning, grumbles Mr So. Britain's public transport network reaches nearly everywhere, he admits, but it is not very reliable. In China, the opposite is true.

A final headache for Chinese expats is that, when you move to an oppressive Western capitalist society, you encounter a working class that can throw its weight around. Europe's toiling masses sometimes go on strike, leaving streets unswept and commuters stranded. Chinese expats find this shocking. Though there are stoppages in some factories in China, no one strikes in public services there, says Mr So. "If they did, there would be trouble."

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Dubai's finances

Debt forgetfulness

Dec 29th 2010 | *DUBAI* | from PRINT EDITION

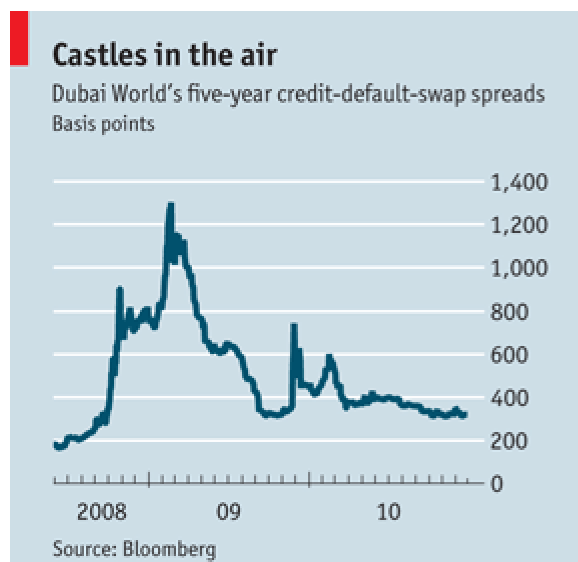
The bailed-out emirate insists that it is bouncing back



THERE was plenty of *Schadenfreude* when, in late 2009, Dubai was forced to admit it had trouble paying its debts. The brash emirate's Gulf neighbours quietly hoped to tempt bankers and business people to their rival financial hubs. Now, irritatingly for many, Dubai is showing signs of recovery. A $10 billion bail-out by Abu Dhabi staved off the threat of a big default. The emirate returned to the bond markets in September. Although the issue was unrated, it was heavily oversubscribed.

Certainly, the property market is still suffering. New apartment blocks and office buildings appear with few new occupiers to pay for them. The Burj Khalifa, the world's tallest building-formerly known as Burj Dubai but renamed in honour of Sheikh Khalifa, Abu Dhabi's ruler, after the bail-out-is reported to be largely empty. Rents in the Dubai International Financial Centre (DIFC), a glitzy zone for offshore banks, were slashed in December.

But the real economy is not doing badly. Tourists are returning. Trade is apparently growing, particularly with India and China, although sanctions have made it trickier to export to Iran. The expatriate executives who manage most of the private sector are defensive about Dubai. They focus on the positives: thinning traffic jams, lower rents. Local media provide a stream of good news. So what's the worry?



One concern is how Dubai will meet its future payments. In 2010 debt was rescheduled rather than repaid. In 2011 Dubai's state-owned and quasi-sovereign entities are due to repay $18 billion of principal. Abu Dhabi was willing to help when crisis hit, but it is tightening its purse-strings and some of its own property companies are struggling. "Ultimately these maturities can't be met without asset sales," says Tristan Cooper, a sovereign-risk analyst at Moody's. Dubai has some impressive assets, but so far has been reluctant to sell those that are successful or strategic, such as docks, hotels and its airline. Moreover, some state-owned enterprises have most of their assets tied up in property that is now of questionable value.

The picture is complicated by the lack of data on the emirate's total debt, which is spread over hundreds of different state-owned companies. Most are controlled by three government-owned investment conglomerates: Dubai World (DW), which sparked the debt worries in late 2009; Investment Corporation of Dubai; and Dubai Holding. One of DW's subsidiaries, Nakheel, a property firm famous for its palm-shaped artificial islands and its bright pink Atlantis hotel, is of particular concern: it came close to defaulting on a $4 billion *sukuk* issue of Islamic securities, until Abu Dhabi stepped in.

Getting down to the core

In October DW reached an agreement with its creditors to restructure $25 billion of debt. It was "relatively orderly", says Jan Plantagie, the Middle East managing director of Standard & Poor's. Nasser Saidi, the DIFC's chief economist, says the DW restructuring is encouraging other emerging-market countries that have spent heavily on infrastructure to take "a more centralised approach" to financial management, for instance by establishing debt-management units within finance ministries. Dubai's borrowing had become so decentralised that it took months for officials to work out the level of DW's debts.

DW has said it could raise up to $19.4 billion over eight years by selling assets: its holdings range from core assets like DP World, a ports business that acquired P&O, a shipping firm, in 2006, to flashy investments such as a casino venture in Las Vegas. Sales are beginning. But overall DW's valuations may be optimistic. JPMorgan puts the worth of its assets at around $11 billion, valuing its property companies at roughly zero. Nakheel's debts are usually reported as being "over $10 billion", though some estimates double that figure. Some properties that Nakheel sold before they were built may never materialise.

Nakheel has offered its numerous trade creditors 40% of what they are owed in cash and 60% in the form of Islamic paper. Most have accepted, having few other options. A handful of claims against DW are being pursued through a special tribunal set up under the DIFC, but jurisdictional disputes are blighting progress.

Investment Corporation of Dubai is seen as the most solid of the three conglomerates. Its assets include the Emirates airline, which reported profits of $925m in the six months to September 2010. The government has been reluctant to sell a stake to a single investor: the more likely option is a partial share offering. There are more serious questions about the future of Dubai Holding, with an estimated $12 billion of debt. Three of its subsidiaries quietly postponed debt repayments in 2010.

Few creditors have complained. It appears that international banks, which have written off billions around the world since the onset of the financial crisis, are prepared to grin and bear a haircut in Dubai, rather than risk losing future business there and elsewhere in the emirates; after all, Abu Dhabi still has one of the world's largest sovereign-wealth funds and will be one of the most important markets for financial services in the Middle East for years to come.

Dubai is now being forced to change a development strategy which, during the Middle East oil boom of 2003-08, relied heavily on property, construction and finance. The property business is generally expected to remain a drag on growth. State-owned companies in other businesses will have to work harder. And the emirate will refocus on its traditional strengths: trade, logistics and tourism. A team of four newly empowered economic policymakers, including Sheikh Ahmed bin Saeed al-Maktoum, the founding chairman of the Emirates airline (who now chairs DW among his 20 or so policy roles) are speaking of going "back to basics."

The emirate still has advantages as a business hub with good infrastructure and a critical mass of professionals, making it somewhere expatriates like to live, rather than Abu Dhabi and Qatar (seen as boring) and Saudi Arabia (too austere). Partly for this reason, the DIFC's role as the Gulf's financial hub is unchallenged for now.

Dubai's longer-term worry will be how to keep this edge in the face of rising competition from its neighbours, which are trying to build their way out of boringness. Abu Dhabi has its Guggenheim, Qatar new museums by I.M. Pei and Jean Nouvel (see article), not to mention the 2022 football World Cup.

But so far only Dubai seems to have licence to purvey total brashness, recently boasting the world's largest shopping mall and most spectacular array of fountains among other attractions. In contrast, when Abu Dhabi's poshest hotel, the Emirates Palace, boasted that it had collared the world's most expensive Christmas tree, a conifer encrusted with precious stones valued at over $11m, it was forced to apologise for its tastelessness on the state news agency's website.

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Buttonwood

In a spin

Dec 29th 2010 | from PRINT EDITION

A bearish perspective on the market in 2011



BEFORE reality TV ruled the airwaves, the Saturday night schedules on the BBC would often feature a variety show with singers, comedians and novelty acts. One favourite was a man spinning plates on top of poles, an act that involved a lot of dashing about to avoid disaster.

Central banks have been performing a version of that act for the past three years. In 2008 they were racing around trying to save one bank after another, and were unable to prevent a few smashes. In 2010 the fragile plates were the sovereign countries of the euro zone. The authorities just managed to keep them intact.

But the loss of just one tiny saucer could result in a lot of broken crockery. The banks are still in a delicate state with many dependent on the European Central Bank (ECB) for finance. The advice of Walter Bagehot, a 19th-century editor of *The Economist*, was that central banks should lend freely in a liquidity crisis, against good collateral. But this support was supposed to be short-term, not continuous: a central bank should be an emergency room, not a hospice.

Indeed, for all the efforts of governments and central banks, many of the global economy's long-term problems have yet to be solved. The banks are weak, the American housing market is still in the doldrums and the global imbalances have not gone away.

Just as the ECB bought time for European banks, rescues have been attempted for the struggling governments of Greece and Ireland. But these seem like temporary expedients: lending the countries money for extended periods at rates neither can afford. The packages have not been sufficient to calm the markets or stop the rot from spreading: 2010 ended with Fitch downgrading Portugal and putting Greece on negative rating watch.

The rest of Europe is now talking about imposing penalties on private-sector lenders in future rescues. That will turn each crisis into a game of chicken as bondholders sell before they get penalised. And financing packages do not deal with an underlying lack of competitiveness in many European economies. Without the ability to devalue, the restoration of competitiveness requires painful austerity measures and wage restraint.

That leads to another potential flashpoint for 2011: the lack of global co-ordination. Gone is the consensus seen at the G20 meeting in April 2009. Europe will be pursuing austerity, China is trying to rein in bank lending but America has opted for another fiscal stimulus. This is a throwback to pre-crisis 2007, with American deficit-financed consumption set against Chinese surplus-creating exports.

It seems certain that the Federal Reserve will continue to accompany fiscal stimulus with the monetary equivalent in the form of near-zero interest rates and further quantitative easing. The need for such extraordinary measures is an indication of how weak the economy continues to be. But while the developed world is still fighting off deflation, the developing world is worrying about inflationary pressures, with gold near $1,400 an ounce and oil back above $90 a barrel.

Easy monetary policy in America also creates the incentive for further speculative money to flow into emerging markets via carry trades and other strategies. That creates a dilemma for developing-country governments: they may want to head off inflation with higher interest rates but that would only encourage the speculators. Some have tried capital controls instead but it is not clear such measures are effective. Bubbles in emerging markets are likely to develop in 2011.

Whether all-out currency wars (in the form of trade protection) will emerge in 2011 is harder to tell. The aim of most developing countries is to prevent their currencies rising against the dollar at a faster pace than the Chinese yuan. Oddly enough, the European fiscal crisis eased some of the strains in late 2010: a weaker euro meant a stronger dollar.

But it is quite possible that the dollar could suffer another round of weakness in the coming year. After all, the currency has no yield support, a continuing trade deficit and the prospect of endless fiscal deficits. The sorry condition of municipal and state finances could yet be the trigger for a loss of confidence.

This list of problems is the reason why it is so hard for Buttonwood to join the bullish consensus for 2011. The authorities have kept the plates spinning by dint of an enormous effort and some unprecedented monetary measures. But the underlying problems have not been solved. And the law of gravity cannot be suspended for ever.

Economist.com/blogs/buttonwood

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Car finance

Into the fast lane

Dec 29th 2010 | *NEW YORK* | from PRINT EDITION

Lenders hope to capitalise on a rebounding car market



THE acquisition of Chrysler Financial, the carmaker's former lending and leasing arm, by Canada's TD Bank, agreed to on December 21st, points to the recovery of a market that sputtered to a near-halt during the financial crisis. It now seems to offer more promise to lenders than most other types of consumer debt.

The $6.3 billion deal makes financial sense for the seller and strategic sense for the buyer. It allows Cerberus, a private-equity firm, to recoup much of the $7.4 billion it invested in Chrysler just before the car market imploded and the company was forced into bankruptcy. (Cerberus retained control of Chrysler Financial even as its investment in the parent was wiped out.) TD, one of the leading vehicle lenders in Canada, gets a firm foothold in the much bigger market next door. As long as it maintains underwriting discipline, car loans offer a high-yielding use for the glut of deposits it is gathering in its American retail bank, which has a strong presence on the east coast after a series of acquisitions.

Chrysler Financial's market share suffered as it was wound down under Cerberus, but its links to 2,000 dealers leave it well placed to win back business. That will worry Ally (formerly GMAC), the government-controlled former finance arm of General Motors (GM), which took on the financing of many of Chrysler's products when Chrysler Financial went into run-off.

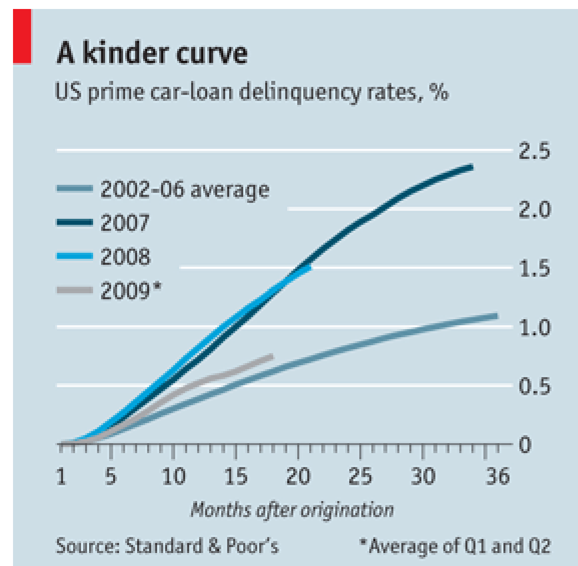
The acquisition is the latest in a string of deals that have reshaped the industry since the crisis. Having sold GMAC in 2006 (as it happens, to Cerberus), GM concluded that it needed a captive lending arm after all: in October it bought AmeriCredit, the biggest provider of subprime car loans. TD is not the only large foreign bank keen on America's car-loans market. Spain's Santander Group has made several acquisitions since 2007, including RoadLoans, an internet lender, and a $3.2 billion portfolio of loans from Citigroup, which is scaling down its consumer-finance operations.

One attraction is the market's fragmented nature, which offers newcomers the chance to establish a leading position without spending too much. In second-hand-car finance, for instance, none of the banks or specialist finance companies that populate the market has a market share in double figures. The largest is Wells Fargo with 6%, according to *Automotive News*.

Another enticement is the strong recovery in car sales. Some 12m-13m new vehicles are expected to roll off American dealers' lots in 2011, up from 11.5m this year and well above the market bottom of 10.4m in 2009-though still well below the record of 17m in 2000. One hope is that more Americans will buy cars for work as the economy recovers: 86% of

them use a vehicle to get to their jobs, according to the Census Bureau. TD's executives predict that America's $700 billion car-finance market will grow to $900 billion over the next three years.

Much of the fresh demand is expected to come from high-quality borrowers. More than 60% of the leases expiring in 2011 are held by consumers with excellent payment histories, reckons TransUnion, a credit-information agency. These "super-prime" borrowers will be deciding whether to buy their leased vehicles, often with a loan, or to lease a new car.



Yet another attraction is the relatively healthy state of car lending. Delinquency rates on prime car loans made in 2009 are returning, from a peak in 2007 and 2008, to the lower levels seen between 2002 and 2006 (see chart). Securitised car loans have experienced few credit downgrades. Where there have been defaults, strong second-hand values have shored up recoveries for lenders repossessing vehicles.

This buoyancy is reflected in the strong issuance of securities backed by car loans compared with those linked to other categories of consumer debt, such as credit cards and student loans. Around two-thirds, or $60 billion, of this year's total asset-backed issuance was for car loans. That is expected to rise above $70 billion in 2011. Strong investor demand has driven down interest rates. The spread over Treasuries on AAA-rated bundles of car loans is about 0.6 percentage points, slightly less than the gap for cards and a third of that for student debt. While the market for subprime mortgage debt is moribund, investors have renewed appetite for lower-quality car debt: a recent issue by Santander was increased from $675m to $950m because of demand.

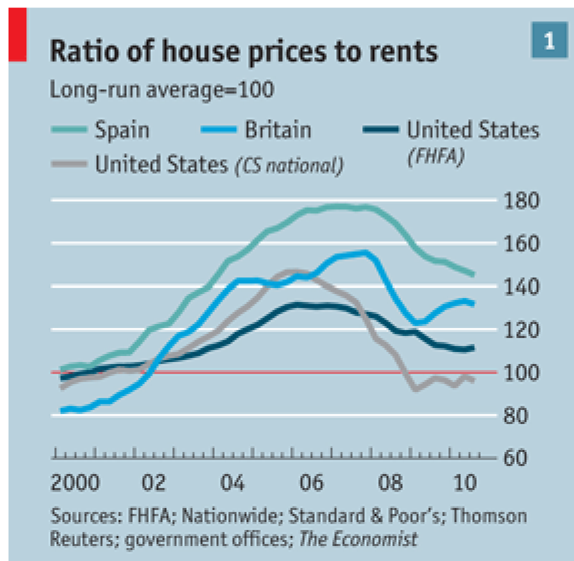
All this would seem to vindicate TD's bullishness, even if its goal of a 20% return on invested capital within four years looks optimistic. Its big move into the market certainly appears better timed than that of the supposedly super-smart Cerberus when it bought Chrysler.

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Charts of 2010

A year in nine pictures

Dec 29th 2010 | from PRINT EDITION

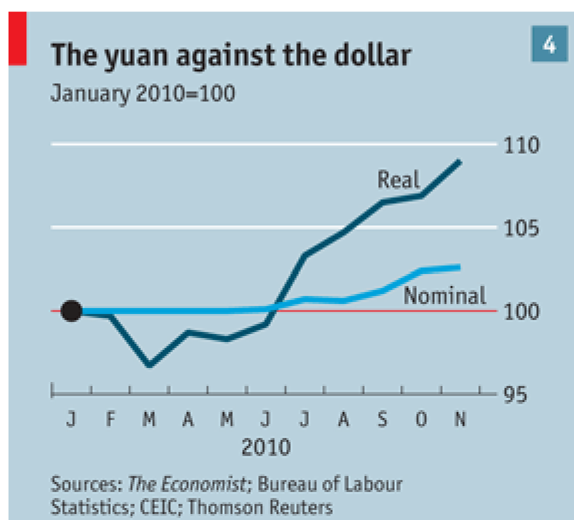


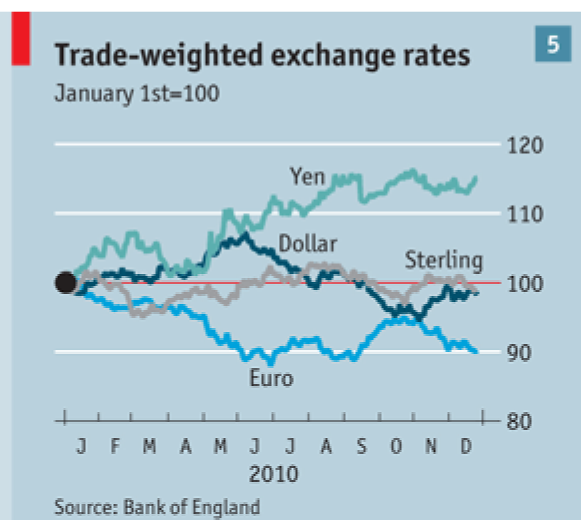


THE global property bust that pulled the world into recession in 2008 began to lift in 2010. House prices turned up in Britain and stabilised in America (chart 1) but slid further in Spain. The process of deleveraging kept rich-world inflation subdued (chart 2) while robust demand and loose monetary policy let it accelerate in India and China. By late 2010 output and employment had turned up in most rich countries but not enough to regain pre-crisis levels (chart 3).

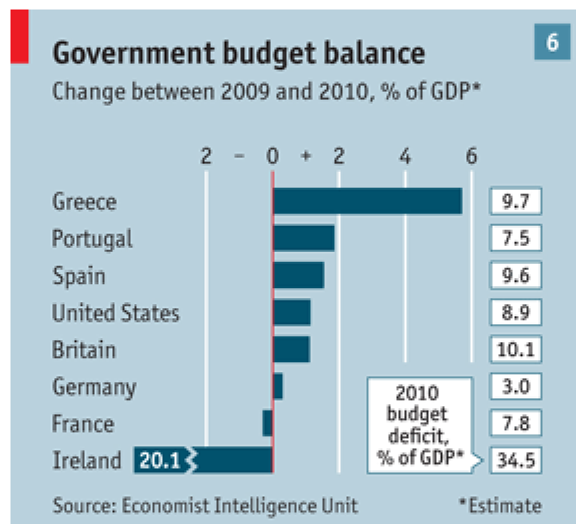


Bowing to American pressure, China allowed the yuan to rise slightly (chart 4); higher inflation meant that in real terms it rose considerably more. Japan watched in alarm as a rising yen (chart 5) threatened its export-led recovery. Europe trembled as its sovereign-debt crisis undermined the euro.





Rich-world budgets remained deeply in deficit but at least those gaps generally shrank, most of all in countries, like Greece, undergoing austerity (chart 6).

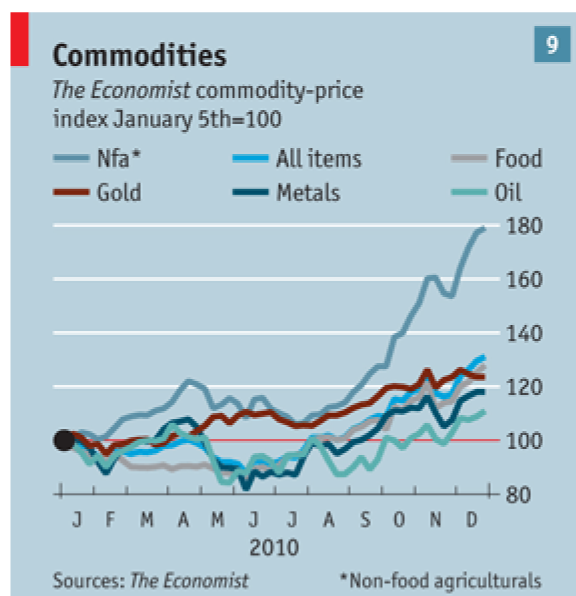


Sadly, austerity did not provide the hoped-for relief: peripheral European government-bond yields continued to rise relative to Germany's (chart 7).





Bonds' best days may be over everywhere. In emerging markets and America bond prices increased through most of 2010 (chart 8) then fell as America's economy sprang to life and investors flocked to equities. Commodities trounced both stocks and bonds (chart 9). Bulls attribute this to global growth, especially in the emerging world; bears cite a desire for inflation hedges. The tension between them will drive markets in 2011.



Economics focus

Parallel economies

Dec 29th 2010 | from PRINT EDITION

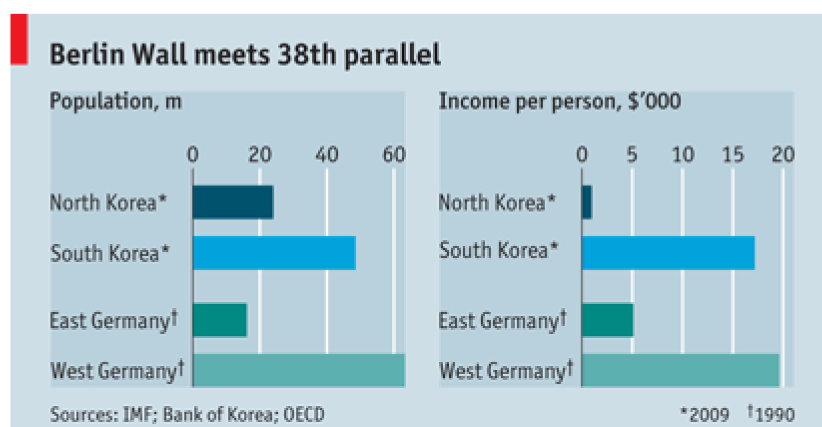
What the North and South Koreans can learn from the reunification of Germany

SOUTH KOREANS dread the prospect of renewed fighting across the "38th parallel" that divides their country from the communist North. But not all of them savour the alternative ending for their cold war: rapprochement and reunification.

North Korea's indigence is almost as scary as its belligerence. The collapse of its rogue dictatorship-improbable but not unthinkable-would replace a military threat with a variety of economic perils, including a possible flood of cheap migrant labour and costly obligations to support the North's people and infrastructure. Germany's example is hardly reassuring. Two decades after reunification, the East still subtracts heavily from Germany's budget and adds greatly to its unemployment figures.

Before the last Korean war in 1950, the North was home to most of the country's heavy industry. As late as 1975, its income per head still exceeded the South's, according to Eui-Gak Hwang of Korea University in Seoul. "Obviously, sooner or later the country must be reunited," wrote Joan Robinson, a Cambridge economist, in 1977, "by absorbing the South into socialism."

South Korea's central bank reckons that North Korea's annual income per person was only $960 in 2009, or about 5% of South Korea's. (This estimate values the North's output using South Korea's prices and its exchange rate against the dollar.) This disparity dwarfs the income gap between the two Germanys on the eve of reunification (see chart). Poorer than East Germany, North Korea is also bigger. Its population of 24m is about half the size of the South's, whereas East Germany's was only about a quarter the size of the West's.



If the Koreas reunified, the government would face a stark choice. It could try to fill the gap in living standards between North and South, through handouts, public investment and subsidies. Or it could brace itself for heavy migration, as poor Northerners moved to the South in search of higher wages. Germany leaned towards the first option. East German Ostmark wages were converted into West German D-marks at a rate of one to one, then raised by union pressure closer to Western levels. This allayed fears that migrant workers would flood into the West, or that capital would flood out. But it also deterred private investment in the East-except for heavily subsidised property speculation which ultimately failed-and priced many of its workers out of the market.

Michael Funke of Hamburg University and Holger Strulik of the Leibniz University in Hanover are two of the many economists who have studied Germany's reunification. In 2005 they used the same framework to model the Korean case. Their calculations (which they describe as "rigorous speculation") illustrate the scale of the problem. To equalise the standard of living in both parts of the country would initially cost over half of the South's tax revenues. The government could reduce the fiscal burden to 30% of revenues, but only at the cost of receiving 8m migrants, the two economists estimate.

The government could, of course, spread the cost over time by borrowing abroad: there is no reason why today's Koreans should pay the full cost of reunifying their country. And in principle, North Korea's productivity might catch up with the South's quite rapidly. Because capital is scarce in the North, returns should in theory be high. Investors will be drawn to its promising location, its raw materials and its workers, who are young, reasonably well educated and cheap. (Many South Korean and Chinese firms have already taken the plunge. Hyundai Asan and Korea Land Corporation, for example, run the Kaesong Industrial Complex a few miles inside the North. It hosts 116 factories, employing 40,000 North Koreans, producing over $20m-worth of textiles, chemicals, electronics and other goods a month.)

Despite North Korea's obstinate commitment to central planning, the market is growing like a vine in the cracks of the socialist edifice. In their new book, "Witness to Transformation", Stephan Haggard and Marcus Noland document this market reform "from below", drawing on surveys of refugees in South Korea and China. They find that 62% of the refugees in China had relied on the market as their primary source of food; only 3% relied on the state. And almost 70% of the refugees said they got more than half of their income from some form of private enterprise, such as selling crops or repairing bikes.

North Koreans have turned to the market out of sheer desperation. During the famine of the mid-1990s, for example, the public distribution system broke down, forcing households to rear livestock, collect acorns and sea algae, or cultivate crops in their kitchens. Informal markets sprouted, as people either bent the law or defied it. In 2002 some of these exchanges were decriminalised. But from 2005 the regime cracked down again.

Planning the end of planning

This surreptitious system of truck, barter and exchange might eventually be the kernel of a more dynamic market economy. But the breakdown of North Korea's central planning is a mixed blessing. One of the few communist countries to liberalise its economy without a big drop in output was China. It did so by keeping its central plan in place long enough to grow out of it. In the early years of reform, households and firms kept their centrally allotted entitlements and obligations. But they were free to sell or buy anything extra for whatever they could get. This allowed prices to do their job of signalling scarcity and abundance, even as it avoided the disruptions and hardship suffered by other transition economies.

North Korea would profit from following China's example, argues Gerard Roland of the University of California, Berkeley. (At the very least, households should be entitled to a ration of essential goods at controlled prices.) Before the North can make a successful transition to a market economy, therefore, it may have to revive something like its public distribution system. The country's best route may lie in reviving a rudimentary plan.

The path to a market economy will no doubt be bumpy. South Korea's communist sibling is both poorer and more populous than West Germany's ever was. But as Messrs Funke, Strulik and Roland all point out, the Koreas have one advantage Germany lacked. They can learn from its example.

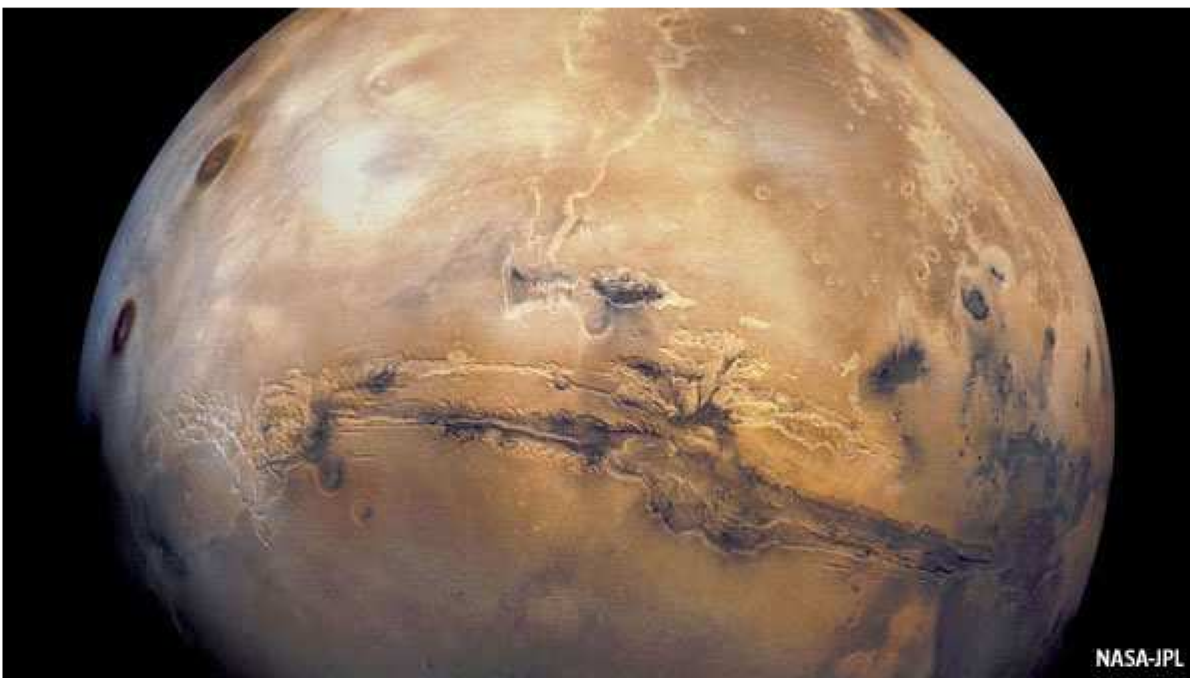
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Methane on Mars

Now you don't...

Dec 29th 2010 | from PRINT EDITION

The never-ending search for life on Mars continues



TOWARDS the end of 2011 a large and hugely expensive robotic rover called *Curiosity* is due to blast off for Mars from Cape Canaveral. If it makes it safely to the planet's surface in August 2012 (getting down from orbit in one piece has not always proved easy for space probes) one of the first things it will do is sniff the air. Its creators, back on Earth, will be straining to see if that air carries a whiff of methane.

In 2004 three different groups said they had seen signs of methane in the atmosphere of Mars. Since, on Earth, almost all atmospheric methane comes from living things, this provided the biggest news from the planet since ALH 84001, a meteorite purportedly bearing Martian fossils, created headlines in 1996.

The shimmering phantasm that is Martian life helps explain why the exploration of Mars soaks up more effort and expenditure than any other branch of planetary science. The barren, arid, radiation-slaked landscape revealed by early probes put to rest the idea that there might be anything living on the Martian surface. But some people hope there are living things below this inhospitable exterior. Methane would be evidence in favour of that. Thoughts of the gas have therefore shaped *Curiosity*'s scientific programme-and in 2016 the first Mars mission to bring together NASA, America's space agency, and ESA, its European counterpart, is to be devoted to analysing trace gases in the atmosphere, with methane the star attraction.

Natural gas?

There have, though, always been doubts about Martian methane. As with ALH 84001 the eye of faith has, in the view of sceptics, been too willing to interpret observations in the most favourable light-and when observations are as strikingly hard to make as those which seek traces of gas in a thin atmosphere so far away, lighting can be everything.

Those views have now been given a particularly thoroughgoing expression in a paper in *Icarus* by Kevin Zahnle, a planetary scientist at NASA's Ames Research Centre, in California, and two colleagues. This paper is not the last word on the subject, but the case it assembles is a powerful one, ranging from spectroscopic minutiae to a close look at how hard it is to fit the methane data into what is known about Mars as a whole.

One of the things that everyone agrees about methane on Mars is that it has to be short-lived. Though Mars has relatively little oxygen in its atmosphere (just 0.13% of the total) that atmosphere nonetheless provides what chemists call oxidising power, which gives it the ability to pull methane molecules to pieces. The predicted lifetime of Martian methane, based on observations of the Earth's atmosphere and experiments in laboratories, is just 300 years. This is one of the reasons why methane was seen as an exciting discovery-its constant oxidation in the atmosphere means it would have to be replenished by some occult process. Even if there was no life involved that would, at least, require that some novel chemistry was going on.

The problem is that observations of methane on Mars imply that its lifetime must be far shorter than a few hundred years. They indicate that the gas comes and goes on a seasonal basis, with much more of it around at some times and places than others. If methane waxes and wanes with the seasons, then its lifetime must be on a par with the length of a season-several months, not several centuries.

Various suggestions as to how this might be possible have been made. There could be special catalysts in the soil, for example, perhaps created by the static electricity whipped up by dust devils. Dr Zahnle and his colleagues argue that such ideas merely pass the buck. Whatever oxidises the methane would itself get used up in the process, and so would also need to be replenished. To oxidise the methane at a high rate the planet would need to make new oxidising chemicals at that same high rate. There is no evidence of its doing so.

The known way in which oxidising power gets added to the Martian atmosphere is through the destruction of water molecules by ultraviolet light. This creates hydrogen and oxygen. Left to themselves they would recombine, producing no net change, but some of the hydrogen leaks out of the atmosphere into space, leaving oxygen-the paradigmatical oxidiser-behind. This process works too slowly, though, to account for the sudden drops seen in the methane level. Explaining these requires new ways of producing oxidising power which do nothing to alter the balance of other chemicals in the atmosphere. That seems a tall order.

There are other things which might be happening to the methane. It could be stored on the surfaces of minerals, or locked into exotic ices, or even eaten by yet more bugs. But all these, too, are inconsistent with the big picture. Mars has xenon in its atmosphere, and xenon atoms are similar enough to methane molecules that a physical process which locked up methane would lock up xenon too. Yet the xenon persists, airily unfettered. As to methane-eating bugs, a look at the planet as a whole again seems to rule that possibility out. Carbon monoxide offers a lot more energy per molecule to hungry microbes than methane does-but Mars's carbon monoxide level is stable and much higher than the claimed methane level. Martian life might be different from terrestrial life in many ways, but it is hard to conceive of any form of life that would spurn a rich and abundant energy supply in favour of a scarce and less fulfilling one. Darwin would certainly not have approved of such pickiness.

Or just hot air?

Carl Sagan, a devoted student of Mars (and, as it happens, once an editor of *Icarus*), used to say that extraordinary claims need extraordinary evidence. Dr Zahnle and his colleagues show that a rapidly fluctuating level of methane is an even more extraordinary claim than has been widely appreciated. That puts a pressure on the evidence which it may not be able to bear.

The three sets of observations that purported to see methane on Mars all relied on the absorption lines which the gas imposes on light at specific wavelengths. Two of these sets of observations were made from the Earth, one from an ESA spacecraft orbiting Mars. The spacecraft's instrument is not particularly precise, and although a model of the Martian atmosphere containing methane gives a better match to the spectra it sees than a methane-free model does, the match is not that great, and does not explain all the spectral anomalies in the data. Were these the only observations of methane on Mars, the subject would be viewed with much more scepticism.

Far more precise observations are possible from Earth. But here there is a different problem. Mars's atmosphere is thin, and even the highest levels of methane it might contain are low. The Earth's atmosphere is thick and contains a lot more methane. A ray of sunlight that passes down through the Martian atmosphere, bounces off the planet's surface, goes back up through the atmosphere, traverses interplanetary space and then comes down through the Earth's atmosphere to a mountaintop observatory encounters about 2,000 times more methane molecules on the Earthly leg of its journey than on the two Martian ones put together. That rather tends to swamp the signal.

The only thing that makes the distinctive spectral features of methane on Mars worth looking for is that spectral lines caused by methane on Mars are offset compared with the same lines caused by methane on Earth, thanks to the relative movement of the two planets. Even so, there are a great many absorption lines of other sorts that can lead to confusion, with different lines potentially masking the signal depending on whether Mars is coming or going.

There is also the problem that the carbon in methane comes in different isotopic forms, and the different forms have subtly different spectra. In some circumstances, a feature caused by a rare isotope in the Earth's atmosphere might mimic the expected feature from normal methane on Mars. Dr Zahnle and his colleagues point out various ways that these factors could have misled observers.

The observers are not taking this criticism lying down. Michael Mumma, of NASA's Goddard Space Flight Centre in Maryland, leads the only Earthbound team still gathering the sort of data in which Martian methane has been seen. Having served as a referee on Dr Zahnle's paper, he withdrew from the process, saying there was too much wrong with the paper for it to be fixed. He will be writing a rebuttal soon, he says. Dr Zahnle's team hope that it includes raw data Dr Mumma has not yet published and which might put some of the arguments to rest. Both will look forward to data from *Curiosity*.

In the meantime, the debate carries a worthwhile scientific lesson in itself. Observations, which to an outsider might sound like simple things, are often remarkably difficult, and depend on complex models to make any sense at all. Thomas Huxley, Darwin's ally in the fight to get evolution accepted, spoke warmly of the facility with which ugly facts can kill beautiful theories. But that fatal ability should not hide the fact that well-applied theories, beautiful and otherwise, can play a crucial role in deciding which observations get treated as facts in the first place.

Orthopaedics

Plastic surgery

Dec 29th 2010 | from PRINT EDITION

A newly developed material should make it easier to mend broken bones



A message of hope

MUCH of modern medicine is high-tech wizardry. Broken bones, however, are still dealt with in a clumsy, old-fashioned way that frequently involves screws, nails and pins. Even the simplest operation can result in infections and incomplete healing if those devices are not placed as they should be. In dramatic circumstances-for instance on a battlefield, where surgeons cannot use X-ray machines and there is no proper operating theatre-the need for so many bits and bobs can make effective surgery impossible. Thousands of soldiers fighting in Iraq and Afghanistan, for example, have had limbs amputated after injuries that could have been treated at any hospital.

It was with them in mind that DARPA, the research-funding agency of America's Department of Defence, approached a group of scientists at the University of Texas, Houston, two years ago. DARPA wanted something that army doctors could carry in their bags and use to mend injured limbs on the spot, before amputation became inevitable. The researchers, led by Mauro Ferrari and Ennio Tasciotti (who have since moved to the Methodist Hospital Research Institute in the same city) came up with an idea that could change orthopaedic surgery once and for all: a material that surgeons can implant or even inject; which fixes a fractured bone quickly; and which then leads to its full regeneration, with no need for nails and pins.

The material in question, the product of a collaboration between biologists, nanoengineers and mathematicians, is based on a chemical called polypropylene fumarate. It is activated at 37^C, the temperature of the human body. When applied to a broken bone it solidifies and works like a glue, bringing the two parts of the fracture together. That is necessary, as any

orthopaedic surgeon knows, because if a gap of more than a few millimetres is left between fragments the bone will never heal.

Yet a simple glue would not be enough. The material also has small spheres of porous silicon embedded in it. Their function is twofold. First, they add to the material's strength (a patient with a broken leg should be back on his feet as soon as a week after treatment). Second, as they dissolve into the patient's body, they release cells, proteins and drugs which help that body create new bone tissue.

The cells are mesenchymal stem cells-the progenitors of osteoblasts, which make bone tissue. Mesenchymal stem cells are immune-modulators, which means that they will not be rejected by the patient's immune system.

Since it would be impossible to inject enough stem cells to complete the job alone, the silicon spheres also contain a cocktail of molecules called growth factors and cytokines that recruit the patient's own stem cells and get them to work on new bone tissue. Antibiotics (to prevent infections), and pain-suppressing drugs complete the package.

Boning up

The key to success, says Dr Tasciotti, is timing. Stem cells must reach the site of the fracture, proliferate and turn into osteoblasts at the right moment. If they start to specialise too early, there will not be enough bone cells to heal the fracture. This is where the mathematicians of the group came in. Using computer simulations, they found the ideal thickness for the silicon spheres and the ideal size for their pores, so that the spheres degrade and release their content at the right rate. While this happens, the polypropylene fumarate becomes integrated with the body thanks to protein fragments called peptides placed on its surface. These make it look like human tissue and thus prevent its rejection by the patient's own cells.

In this way the whole material is gradually replaced by new bone. More important, Dr Tasciotti says, the technique would provide enough stability to do away with external fixation devices, which often cause infections.

The researchers have been working on the project for nearly two years. They have already tested their material on rats-applying it directly to fractures, using an implantable sponge. It worked, getting the rodents back on their (fractured) legs and leading to the formation of new bone tissue. It is now the turn of sheep, a sterner challenge because their legs have more weight to sustain. Recently the team has turned the compound into a paste (Dr Tasciotti describes it as "halfway between honey and a toothpaste") that can be injected with an ordinary syringe. Further tests on animals using this technique are under way. If these are successful, tests on humans may follow soon.

The work of Dr Ferrari and Dr Tasciotti has also generated a spin-off. On a battlefield, even their invention would not be of much use without a way to check the fracture and to decide where to make the injection. A member of the team, Raffaella Righetti of Texas A&M Engineering University, has therefore developed a portable ultrasonic scanner that can give instant three-dimensional images of a bone. Conventional ultrasonics do not work well with bone, but Dr Righetti circumvented the problem by using higher ultrasonic frequencies than normal and special software that amplifies the images of such hard tissues. As well as doing away with screws and pins, the team may soon eliminate the need for X-rays, too.

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Human evolution

The old man of the mountain returns

Dec 29th 2010 | from PRINT EDITION

More evidence for a previously unknown species of human



Wisdom tooth?

SVANTE PAABO, the DNA palaeontologist whose work provided the inspiration for "Jurassic Park", has produced a nice Christmas present for students of human evolution. He and his colleagues have confirmed, using the creature's whole genome, that a fossil finger bone which is at least 30,000 years old, and which was found in a cave in the Altai mountains of Siberia, comes from a previously unknown human species. That was all but certain from their previous study of the creature's mitochondrial DNA (an abundant form of the molecule found in cells' powerpacks), released in March. The latest analysis, published in *Nature* on December 23rd, removes any doubt-and adds a tooth to the meagre stock of evidence from the new species that modern science is able to examine.

This discovery is extraordinary on many levels. Perhaps the most important is that one small group of modern humans who live far away from Siberia-the Melanesian islanders of the Pacific Ocean-have picked up a block of genes from the newly discovered species on their (or, rather, their ancestors') travels. Genetic evidence of the Melanesians' journey from the African cradle of *Homo sapiens*, which started (like that of all non-African people) about 60,000 years ago when a band of adventurers crossed the straits of Bab el Mandeb, from modern Djibouti to modern Yemen, suggests they then continued along the south coast of Asia, never going far inland. For the necessary interbreeding to have happened, Dr Paabo's new species would thus have to have been spread over a vast area of Asia. Yet it has left no previously identified traces.

To be fair, Asia has not, so far, been a rich source of human fossils-unlike Africa, where many sites in the east and the south have yielded ancestral humans, and Europe, where Neanderthals have been found by the hundred. Good Asian fossils come only from China (Peking Man, a type of *Homo erectus*) and Indonesia (Java Man, another *erectus*, and *Homo floresiensis*, the much-maligned "hobbit" of the island of Flores). Stone tools abound, but human bones from other Asian sites are almost as rare as hens' teeth. The few that do exist are now, of course, the subject of intense scrutiny and much debate about whether they, too, belong to the new species.

What this discovery ought to provide, then, is the impetus to start looking much harder for human fossils in Asia. The new species, which has yet to be named, clearly lived all over the place. If, despite that, it remained hidden until now, who knows what other species of human might also be out there?

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Art in Qatar

A Smithsonian in the sand

Dec 29th 2010 | *DOHA* | from PRINT EDITION

With the opening of Mathaf, the first Arab Museum of Modern Art, Qatar is racing to turn itself into the cultural hub of the Middle East



QATAR'S ambition to become the Gulf's most important cultural destination took its first step with the opening of the Museum of Islamic Art in 2008. The stark white dome of travertine slabs, overlooking the waters of Doha bay and visibly Islamic in aesthetic, was designed by I.M. Pei, the Chinese-American architect who built the glass pyramid for the Louvre in Paris. For more than 20 years the al-Thanis, Qatar's ruling family, had been buying the best Islamic objects that came on to the market, including glass, carpets, astrolabes, Korans, manuscripts and miniatures. With its unusual interiors, its magnificent display cases and its clever lighting, Mr Pei's creation quickly (and rightly) took its place as one of the great museums of the world.

The al-Thanis will reach their next major cultural milestone in 2013 when Jean Nouvel, like Mr Pei a winner of architecture's most prestigious honour, the Pritzker prize, unveils his National Museum of Qatar. The pearl-shaped emirate was little more than a string of nomadic tents 50 years ago, so no one is saying what will be on display inside the building. But hoardings along the huge construction site on the Corniche show that Mr Nouvel was inspired in the design of the museum itself by the rose-shaped encrustations of salt crystals that are to be found in the desert.

In between there is Mathaf, an embryo project opened on December 30th that aims to give modern art a wider audience in the Arab world. Mathaf, after the Arabic word for museum, is based on a collection, mostly of paintings, that dates back to the 1840s. It has been given a temporary home by Doha's Education City, in a former school (pictured above) that has been refurbished by a practical French architect, Jean-Francois Bodin.

The project took less than a year to complete and cost just euro8m ($10.5m), according to Mr Bodin. But the al-Thanis' aims for the museum are ambitious. "With the opening of Mathaf", says Sheikha al-Mayassa al-Thani, the emir's daughter who chairs the Qatar Museums Authority (QMA), "we are making Qatar *the* place to see, explore and discuss the creations of Arab artists of the modern era and of our own time."

Modernist art for public display in the Middle East has long been something of a paradox. Painting is not part of the Arab tradition and museums are a Western invention. Arab art from the 19th and early 20th centuries has a very European feel. A small artistic elite studied in the *beaux arts* schools in France and Italy and then spent their lives mostly teaching-and painting camels and donkeys, markets and peasants in an accomplished if often undistinguished manner. The chief value of these paintings today is as a record of a way of life that has long gone.

From the interwar period a number of schools sprang up in Baghdad, Beirut, Cairo, Damascus and Tunis. Artists were trying to make sense of modernity, the end of colonialism and the struggle for independence, but the work they produced was often derivative and the collections in which it was shown patchy or transient. Tehran's Museum of Contemporary Art, for example, gathered, among other things, fine work by Jackson Pollock, Alberto Giacometti and Henry Moore. These, together with its modernist Iranian works, were on show for a while after the museum opened in 1977 but have hardly been seen since the revolution two years later.

The Museum of Modern Art in Cairo shows only work by Egyptian artists, yet some of the country's best pieces are in a private museum in Alexandria which is devoted to the work of Mahmoud Said, a lawyer who painted folklorist scenes as a hobby, and the canvasses of Adham and Seif Wanly, two brothers who worked together and exhibited in Venice and Sao Paulo. Most of the best work in the region is held in private collections that are rarely seen unless they are auctioned off. When Mohammed Said Farsi, a former mayor of Jeddah, Saudi Arabia, recently sold his collection at Christie's in Dubai, some of the works fetched more than $2m.

Then in 1986, a young member of the Qatar royal family bought his first picture, an upside-down pyramid by Yousef Ahmad, a Doha-born painter trained in Cairo and California. Twenty-five years on, Sheikh Hassan al-Thani's collection has grown to over 6,000 works and is now the most extensive gathering of modern Arab art in the world. In 1994 Sheikh Hassan opened a private museum, but the plan had always been to give it to the Qatar Foundation and build a new home for it. "We want this museum to become the home of Arab modern art in the Middle East," he says.

The formal opening of Mathaf, by the emir, was attended by Dominique de Villepin, a former prime minister of France who is on the QMA board, and Jeff Koons, the world's most successful sculptor, on his sixth visit to Qatar in a decade. The museum's lobby was hung with a double portrait of the emir and his wife by a fashionable Chinese painter, Yan Pei Ming. Sheikha al-Mayassa had commissioned the paintings as a surprise for her parents.



So much to take in

Three exhibitions fill the museum and a sister lot built in the grounds of the Museum of Islamic Art for a show planned for 2012 by the Japanese pop artist, Takashi Murakami. The first, "Sajjil: A Century of Modern Art", from Mahmoud Darwish's poem, *Sajjil, ana arabiy* ("Record, I am an Arab"), shows a selection of the works that Sheikh Hassan has bought over the years, including four of the key pieces from the first Farsi sale, among them the top lot, Said's 1934 work, "Les Chadoufs".

In a second show, "Interventions", the curators asked five living artists who are well represented in Sheikh Hassan's collection to create new pieces. The drawings of life behind bars by Ibrahim Salahi, a Sudanese artist, hang alongside his most influential work, "Reborn Sounds of Childhood Dreams", that dates back to 1962. The painting was kept rolled up in Khartoum during Mr Salahi's years of imprisonment and exile and is on public display for the first time in more than four decades. Dia Azzawi, a Baghdadi artist living in London, has placed white roses made of resin and representing the Iraqi academics dead or missing since 2003 around the hooves of two bronze horses, symbols of the military defeat of Iraq. "Told, Untold, Retold", the third show, brings together work by 23 contemporary artists. Among the most interesting are

Jerusalem-born Steve Sabella's photographs of Israeli and Palestinian men hardly distinguishable in their boxer shorts and the paintings on paper by Marwan Sahmarani, a Lebanese painter who was inspired by a famous 16th-century engraving by Albrecht Durer.

More interesting than the inaugural exhibitions, though, is what Sheikh Hassan is trying to do with the Mathaf project. Buying art quickly brought him in contact with artists. Mr Salahi spent much of his exile in Qatar with Sheikh Hassan as his patron. After the Iraqi invasion of Kuwait and the first Gulf war, he also began supporting Iraqi artists who could no longer sell their work at home, sending them canvasses and paints and even bringing two or three every year to live and work in Qatar at his expense. He has extensive holdings of two of the best Iraqi artists, Ismail Fattah, a realist sculptor from Basra, and Shakir Hassan al-Said, who studied in Paris and co-founded with Jewad Salim the Baghdad Modern Art group in 1951. Since the looting of the National Museum of Iraq in Baghdad, Sheikh Hassan's collection of Iraqi art is the biggest in the world.

When he began buying Arab art a quarter of a century ago very little proper research had been carried out on the region's artistic movements: there were almost no books. By acting as a patron and bringing artists to Doha, Sheikh Hassan has made the city an artistic centre. He now plans to publish an encyclopedia of modern Arab art. Already he has begun to build up a library that he wants Mathaf to develop so that it becomes a research centre for Arab art in the region.

The al-Thanis believe that teaching young Qataris about their history and artistic heritage is important. A far bigger gap exists between generations in Qatar and other conservative Arab countries than in the West. Mathaf wants to create joint programmes with the Doha Film Institute, to encourage young poets to write about the art that inspires them and to set up a programme of teenage guides who will take their peers around the museum.

But the road to understanding will not be simple. Artists challenge boundaries and sex is a particular barrier. Ghada Amer, an Egyptian artist who lives in New York, carved an amorphous sculpture with 100 Arabic synonyms for love rather than try to persuade the Qataris to exhibit her better-known work which is often pornographic. Two Iranian artists, Ramin and Rokni Haerizadeh, had to flee their homeland after their erotic montages of mullahs appeared in a 2009 exhibition in London's Saatchi Gallery. Although they now live just down the road in Dubai, the brothers were not invited to participate in Mathaf's inaugural shows. Whether Mathaf continues in this timid vein remains to be seen.

Nearby Abu Dhabi has invited the Louvre and the Guggenheim to build offshoots of their museums in the Middle East, and is funding their acquisitions. Qatar prefers a more home-grown approach. It is considering a number of ways of using its collections of photography, weaponry, orientalist art, natural history, Mughal jewellery, stamps and traditional costumes. Even if only half of these get off the drawing board, Doha may well become the cultural hub that Sheikh Hassan dreams of.

Gordon Brown's memoirs

Oh me, oh my

Dec 29th 2010 | from PRINT EDITION

Why Gordon Brown won't be believed by everyone



Let me give you some advice

Beyond the Crash: Overcoming the First Crisis of Globalization. By Gordon Brown. *Free Press; 314 pages; $26. Simon & Schuster; pound20*. Buy from Amazon.com, Amazon.co.uk

MANY politicians use their memoirs to settle old scores. Newspapers scour them for juicy titbits of who said what to whom, and which leaders were perpetually drunk or unreliable. Gordon Brown, the former British prime minister, is above such gossip. His first post-election effort is an analysis of the financial crisis that dominated his premiership.

But "Beyond the Crash" is no less revealing for the absence of tittle-tattle. The tone is set in the four-page prologue which contains 34 instances of the words "I", "me" or "my". Later on, readers are told of several occasions when an anecdote by Mr Brown would reduce global leaders to silence or a speech would provoke rounds of applause from audiences.

Such is his self-regard that Mr Brown seems to lack all sense of irony, as when he reports, with an apparently straight face, this remark from the Norwegian prime minister: "You know, I've been a friend of Gordon's since we first started attending events like this a decade ago, and every time since I've heard him give exactly the same speech!" What Mr Brown regards as an inspiring pep talk, others might see as insulting banality. When he told an African Union summit "It is time to rise. Rise, because just as Africa needs the world, the world needs Africa", how many leaders were tempted to respond with a rude noise on their vuvuzelas?

The pity of it is that an intelligent man appears to have been seduced by the sound of his own voice. Mr Brown's analysis of the crisis is clear-headed and the broad outline of his economic proposals appears sound, and not just because it chimes with various recommendations made by this newspaper. America needs to devote less resources to consumption and more to investment in education; Europe needs structural reform to improve its labour market; China needs domestic reform to boost consumption.

Mr Brown can also claim to have shown good judgment in three crucial decisions of his political career: giving independence to the Bank of England, opposing British membership of the euro and recapitalising the troubled banks in the autumn of 2008. In those days, he played a vital role in averting depression.

But all too often, he allows sloganeering to overwhelm practical proposals. In the final chapter, "Markets Need Morals", the reader looks in vain for a bit of detail about how such a code might be imposed. All Mr Brown has to say is "the operation of markets must balance the necessary encouragement of risk-taking with proper standards of responsibility." Indeed, Gordon. But how?

The willingness of other global leaders to take Mr Brown's economic advice seriously will also be reduced when they contemplate the mess that he made of the British domestic economy. His criticisms of the financial sector are harsh and he reproduces a 1998 speech that calls for greater global co-ordination of financial regulation. Mysteriously, he makes no reference to his 2005 speech to the Confederation of British Industry when he said that the regulation of financial services

should involve "not just a light touch but a limited touch". It is all very well being wise "beyond the crash" but it was before the crash where Mr Brown was found wanting.

The making of the sexes

Fluid movement

Dec 29th 2010 | from PRINT EDITION

How men and women are less different than you think



Man & Woman: An Inside Story. By Donald Pfaff. *Oxford University Press USA; 232 pages; $27.95 and pound15.99*. Buy from Amazon.com, Amazon.co.uk

THE trouble with books about the differences between men and women is that the authors are all too often partisan, or perceived to be. Any writer brave enough to take on this subject needs to be meticulous and unflaggingly sceptical in his or her approach. Rebecca Jordan-Young, a sociomedical scientist at Barnard College, pulled this off last year with "Brain Storm" (Harvard), in which she showed up the flaws in research that attributes sex differences in behaviour to prenatal exposure to hormones. Out of the rubble of the edifice she destroyed, or at least left wobbling dangerously, Donald Pfaff has constructed a far more complex structure, that more closely resembles what scientists know about this subject.

Mr Pfaff is the right man for the job. A neurobiologist at New York's Rockefeller University, he has worked in the field for nearly half a century, focusing on how hormones affect the brain. Mr Pfaff's lab was the first to demonstrate how a female hormone, oestrogen, acts on a rat's brain to produce female mating behaviour, so he might be expected to defend his patch against attacks from the likes of Ms Jordan-Young. Instead he weaves a story of genetic, hormonal and environmental influences that interact in myriad and complex ways to determine gender. He also resists the temptation to draw too many parallels between rats and humans. Though it is a reasonable assumption that these species share the brain mechanisms that control basic sex behaviours-erection, ejaculation and so on-in humans the biological is also powerfully modulated by social and cultural influences.

The story of sex determination starts with DNA, since your genes launch you onto a male or female trajectory. But as Mr Pfaff explains, if for any reason your hormones fail to follow suit, you can grow up assuming the other gender. Even if your genes and hormones are in synch, environmental factors can reroute the gender train. Under stressful conditions, for

example, a pregnant woman's adrenal glands pump out abnormal levels of another female hormone, progesterone, feminising the developing brain of a male fetus.

What's more, the process of sex determination is not over by birth, but continues into life, up to and including puberty. And, when it comes to humans and sex, variety is infinite. Strongly masculine and strongly feminine genders mark each end of the spectrum. In between, every permutation is possible, and the same goes for sexual orientation.

In some ways men and women are consistently different, but the significant differences in their brains only pertain to those primitive behaviours which include mating, parenting and aggression. When it comes to higher functions-the skills that arguably make us human-the similarities outweigh the differences. On average, men and women score equally on mathematical and reading ability, for example. Reported differences in empathy, leadership and verbal fluency have all been exaggerated, according to Mr Pfaff. Where differences in these skills do exist, the causes may lie in the social context. The rise of the high-achieving "alpha girl" is in part due to social changes that have allowed girls equal access to education. The reasons why many boys perform poorly at school are complex, but partly social too.

Mr Pfaff is both meticulous and sceptical, but he has a tendency to be too technical for the general reader. And although he is convincing about the existence of a gender continuum, society still frets over what to do about children whose behaviour falls in the middle, or who, more unusually, are born with ambiguous genitals. Controversy still rages over the best way to treat this last group, and medicine can claim both successes and failures. Mr Pfaff's book is the latest of many works on the science of sex determination. But there is still room for more.

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Technology and monopolies

Separation anxiety

Dec 29th 2010 | from PRINT EDITION

A free-marketeer wants more government intervention. Odd

The Master Switch: The Rise and Fall of Information Empires. By Tim Wu. *Knopf; 384 pages; $27.95. To be published in Britain in March by Atlantic Books; pound19.99*. Buy from Amazon.com, Amazon.co.uk

SIR TIM BERNERS-LEE, one of the pioneers of the internet, is deeply worried. In an article last year in *Scientific American*, he gave warning that the openness that has been central to the web's success is now under threat. Sir Tim's bugbears include powerful social networks that refuse to share the information they hold with the rest of the web, and cable companies that manipulate the flow of data over their networks to the advantage of their own commercial interests.

Readers of "The Master Switch" by Tim Wu, an academic at Columbia University, will appreciate why Sir Tim is sounding the alarm. Mr Wu shows how a series of "information industries" in America, from telephony to radio and movies, have been through what he calls "the Cycle". After an initial flowering of entrepreneurial activity, individual firms or a cartel soon began to dominate. Among these have been AT&T in telephony and a handful of powerful film studios in Hollywood. "Markets are born free," writes Mr Wu, "yet no sooner are they born than some would-be emperor is forging chains."

Sometimes the government has stepped in to remove these restraints, which is what happened when AT&T was broken up by fiat in 1984 and forced to sell its local carriers. But it is more common, Mr Wu claims, for the state to side with information behemoths rather than promote competition. For instance, in the 1950s and 1960s the American government did everything it could to stymie the rise of cable television, which threatened the duopoly of NBC and CBS.

Eventually cable TV was able to disrupt the status quo anyway. However, Mr Wu now believes that a far more worrying round of "the Cycle" is upon us. The threat comes, he says, from entertainment conglomerates, cable firms and companies such as Apple that combine content and technology in unprecedented ways. America, he believes, should adopt a

"Separations Principle" that would enforce a split between creators of content, those that distribute it and makers of devices on which it is consumed.

This is a puzzling prescription from someone who gives strong warning in his book against the limitations of government, dismissing it in one passage as "an inferior arbiter of what is good for the information industries". In effect, a "Separations Principle" would mean a far bigger role for the state, which would decide which category of activity a company falls into and then have to monitor it closely.

The move would also have a huge economic cost, a problem that Mr Wu quite happily glosses over. Many compelling innovations, such as Apple's iPhone, have come about precisely because the companies that gave birth to them straddle both content and technology. A better solution would be to ensure existing antitrust laws and other regulations are applied robustly to these companies. "The Master Switch" is a worthwhile read. Mr Wu has long believed some big companies have too much power, and he may be right. But giving too much power to the government instead is not the solution.

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Natural history

Birdman

Dec 29th 2010 | from PRINT EDITION

A marine scientist finds that change in the natural world is not all bad



Among friends

The View From Lazy Point: A Natural Year in an Unnatural World. By Carl Safina. *Henry Holt; 416 pages; $32 and pound20*. Buy from Amazon.com, Amazon.co.uk

CARL SAFINA'S childhood by the sea led him to become a marine ecologist and conservationist. He recently spent a year based at his cabin in the dunes of Lazy Point on Long Island, patrolling the local coastline and journeying to both polar regions. Studying the life he observed along the way, Mr Safina-like a country doctor-found himself taking the pulse of the planet.

Everywhere he found the natural world shifting in response to humanity. But the book that emerged from his journey is not so much a polemic against anthropogenic climate change as an impression of a world in flux, a lament about the damage caused by overexploitation, pollution and flawed economics, and a call to arms in the cause of hope.

In once-abused Alaska Mr Safina finds life resurgent. Thanks to the rich nutrients in its soil, it grows more wood mass per acre than anywhere in the world. The trees shade the streams and wood-falls create lagoons that promote ideal conditions for salmon. Bears pluck the teeming fish from the water and scatter their half-eaten remains through the forest, fertilising the soil to fuel the growth of trees-and so further boost the world's healthiest wild salmon runs.

Mr Safina's writing moves easily from revelatory observation sparked by a flash of bird or splash of fish to passionate, lyrical philosophy. He rails against the concept of growth-based development. He tears into Adam Smith's thoughts on the benefits of selfishness and argues that defending dirty energy is as morally bankrupt as defending slavery.

Mr Safina rubs away at the chalk circle that 19th-century thinkers drew around humanity to separate it from the natural world. He describes nature as mankind's church as well as its bank, and in Svalbard he becomes angry when he finds only bones where once great whales fuelled an economic boom. It is a "tragedy of the commons" that extends not just across space, but also across time, he explains. We are taking not only more than our fair share of our neighbour's grass, but also our children's.

Mr Safina provides many examples of the human urge to exploit. Walking on the beach near Lazy Point one night under a full moon, he comes across horseshoe crabs laying their eggs. The crabs have existed unchanged for 450m years, and their rich eggs have become a cornerstone in the local ecosystem. But they also make excellent bait. A pickup truck arrives on the beach, and a young commercial fisherman begins throwing the ancient creatures into the back of it. An impassioned debate follows.

In the course of his year of study, Mr Safina also finds nature retreating from the brink. Peregrine falcons dot the sky, the coral reefs of Palau are transformed from ghostly white skeletons to a riot of colour in only a decade, and once again an abundance of once-endangered striped bass are to be found in his home waters. More such changes are what he longs for.

Hendrik Coetzee

Dec 29th 2010 | from PRINT EDITION

Hendrik Coetzee, explorer, died on December 7th, aged 35



THE blog Hendrik Coetzee was writing when he died was called greatwhiteexplorer.com. It was a joke in a way, but not inaccurate. He was white sure enough, a South African from Ottosdal. And he was an explorer. He trod explicitly in the footsteps of Mungo Park and Stanley or, preferably, he didn't tread in anyone's footsteps at all. The part of central Africa

he was investigating, round the headwaters of the Nile and the Great Lakes, was the darkest part of the continent's dark heart. Very possibly no one had ever glimpsed those trees or bays before. And he was seeing them not from dry land but from the midst of churning whitewater, as he paddled his kayak through the rapids and the rocks. That certainly had not been done by anyone, just as nobody before him in 2004 had kayaked down the Nile, four months and 4,200 miles, from source to sea.

What he was doing was dangerous; no doubt about that. His little plastic boat was expected to plunge straight through huge rapids and plummet down vast waterfalls, while he had no more protection in his cockpit than the deck, a drysuit, a helmet and a paddle. He was used to that, though. You learned very soon how to read a clear line before the put-in, then how to swerve and carve the whitewater, avoiding holes, trying not to be rag-dolled by the flow. You learned too how to deal with the wildlife, deadly crocodiles and hippos, that lay submerged in wait where the water flattened out. What was odd, as he posted his irregular blogs about his latest adventure, was how much fear he felt this time.

People usually called him brave, even reckless. He didn't agree. He was impelled to launch himself into unspoilt rivers simply out of love and compulsion, and because, ever since he had first sat in a kayak, picked up a paddle and found himself alone in wild Nature, he didn't want to do anything else quite as badly. It didn't need courage. Courage, he reflected, was when a village woman in war-torn Congo left her house and walked to the well, knowing that she would probably be raped by marauding soldiers before she got there. The more serious side of Mr Coetzee's exploits was the mapping of these remote rivers and analysis of their water, to help ensure that villagers had clean, accessible supplies. Sometimes it took courage even to drink from the foul public puddles Africans used as wells.

It was true, however, that he usually didn't feel fear when others did. When a huge green wall of water towered before him, he would think: "I might possibly shoot through that." When he heard of high-volume rapids and tumultuous cascades, his reaction was "Yes please." Swinging up on a vine as two charging hippos thundered underneath him, he felt like Tarzan. And when he and his companions got into a tussle with a crocodile on the Nile, beating it off with helmets and paddles as the beast's great green and white belly reared over their hulls, so close that he could even see the plaque on its teeth, he turned to the others afterwards and cried, "How fucking cool was *that*?"

Towards the unknown

Yet fear seemed to be trailing him, and he couldn't tell whether it was something rational, or too much coffee, that made his lips dry and his river-readings unsure. When he started out, in mid-October, he could put it down to the usual jitters before a trip, made worse because he had been approached to lead this expedition by two experienced but daredevil Americans, when he had been happily ensconced in a sort of semi-retirement in the "paradise" of Jinja in Uganda, near the source of the Nile. Encouraged by them, in a way, he'd planned to explore the Ruzizi, the Lukuga and the Lualaba rivers, the most extensive exploration of uncharted African waters yet undertaken. It was daunting, especially when he was still on straight-look terms with his new companions. "But if I wanted to be safe", he argued with himself, "I'd have stayed home in Jinja."

War was also raging again between two of the countries that bordered the Ruzizi, the Democratic Republic of Congo and Rwanda. The Rwandan army, short on humour and apt to "kick serious ass", demanded papers they didn't have and insisted they get permission to use the river. Congolese rebels added to his nerves. But the river looked beautiful, drawing him in deeper, and "inside it felt right" to launch into it. Local people enthusiastically offered to carry their gear, and on his last long portage, as a storm drenched him with "hard, warm drops" and he stood on a dangerous, unknown hill, he reflected that he might never live a better day.

Some people, he blogged, thought that there was nothing more to find out or explore. If that was their boring truth, keep him out of it. He preferred to assume that plenty was still unknown, and to accept that fear was the price you paid for paddling into Nature's secrets. He was intrigued by the idea that in some turmoil of spray, as when shooting through an unknown waterfall, he might "become everything", and "live permanently in that place of Boundlessness, also known as Happiness." This was what was lingering in his mind as, miles down the Lukuga on December 7th, another crocodile charged him that couldn't be beaten off, dragging him out of the boat and under the foaming water. Risk was "the nature of the beast".
